OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

February 2024

MARKET UPDATE

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Spot Market Cycle Indicator (SMCI)

The big picture: Data available through DAT has effectively identified the previous three market cycles, as demonstrated by Eric W. and Jason Miller. They call it the Spot Market Cycle Indicator, or SMCI.

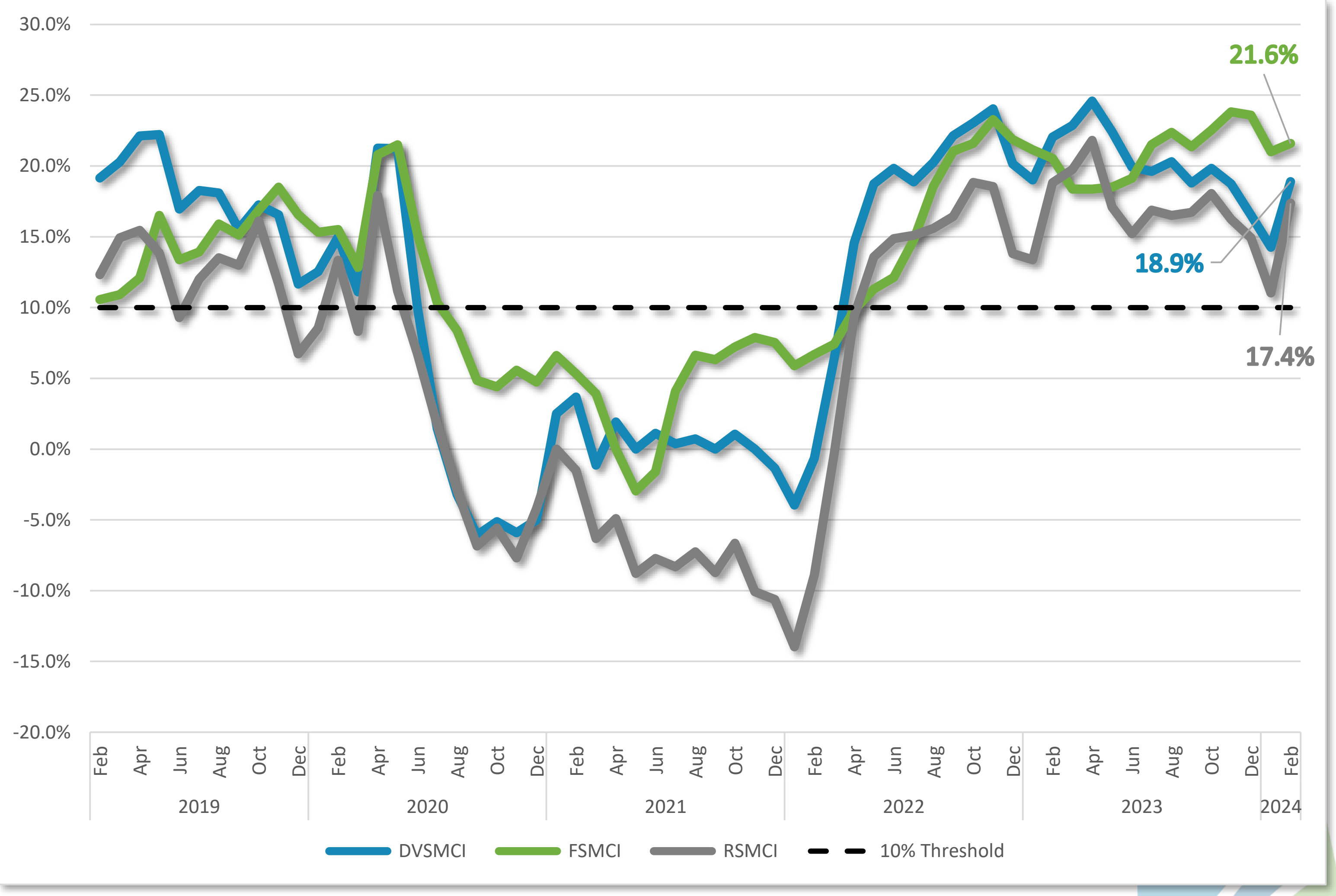
Why it matters: Whenever the SMCI for dry van (DVSMCI), flatbed (FSMCI), or reefer (RSMCI) crosses above the 10% threshold, the spot market enters into bear territory.

- The market crossed that threshold in July 2015, August 2018, and April 2022, which corresponds to commonly accepted periods of downcycles.
- The opposite is also true, the market entered bull territory in May 2013, October 2017, and July 2020.

Our thoughts: As we predicted last month, the market still has a long way to go before in turns upward again. Though it appeared last month that the SMCIs were about to cross the 10% threshold, this was primarily due to seasonality.

- The DVSMCI jumped 32.6% month-over-month (M/M) to 18.9% but is 14.3% lower year-over-year (Y/Y).
- The FSMCI rose 2.7% M/M and is 5.1% higher Y/Y.
- The RSMCI soared 57.4% M/M but is 7.7% lower Y/Y.

All three SMCIs increased in February ending two straight months of decreases. There are still no signs that the freight market is about turn upward as demand still hasn't recovered from its' trough.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

SMCI = (Contract – Spot) / ((Contract + Spot)/2)

Van Market Outlook

Van Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the van market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the van market:

1. Merchant Wholesalers
2. Furniture and Household Furnishing Wholesalers
3. Household Appliances, Electrical, and Electrical Goods Wholesalers
4. Advanced Retail Sales Categories

Demand: Van Load-to-Truck Ratios

The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

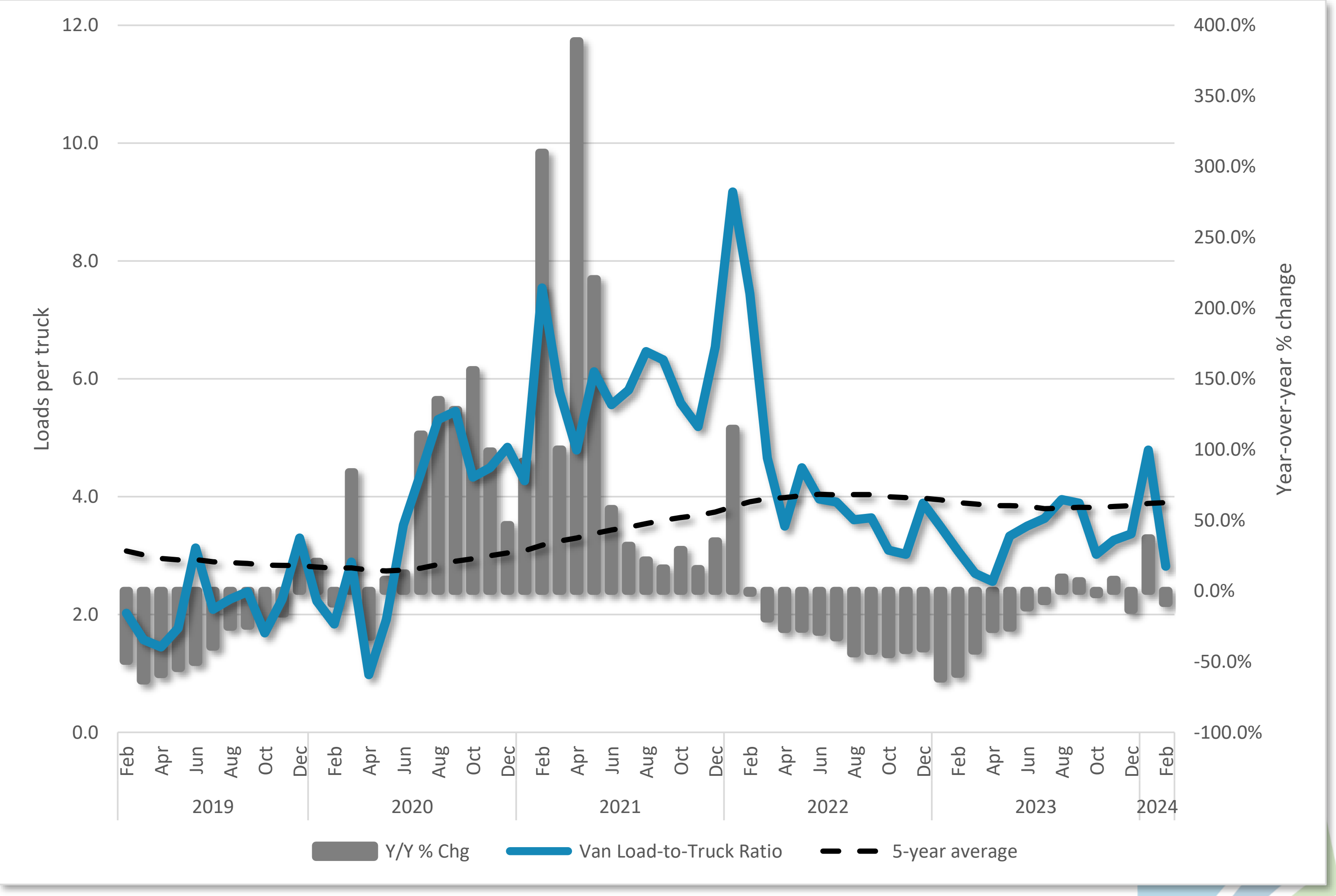
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: The Van Load-to-Truck ratio plunged in February, but some of that is due to seasonality. Demand typically drops off after the first of the of year until about April. The ratio is sitting above 2019 levels.

- The Van Load-to-Truck Ratio decreased 41.1% month-over-month to 2.82, after jumping 42.1% last month.
- The ratio is 8.4% lower than last year and 27.7% lower than the 5-year trend.

Regionally speaking, ratios were more favorable for carriers operating in the Southeast, South Central, and Florida-to-Southern Georgia regions, respectively, compared to other areas in the country.

- Unlike last month, only 2 regions experienced increases in demand. The greatest increase was in the Florida-to-Southern Georgia region where ratios rose 14.6%, from 3.14 to 3.60.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Rates: Van Spot and Contract Rates

The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes

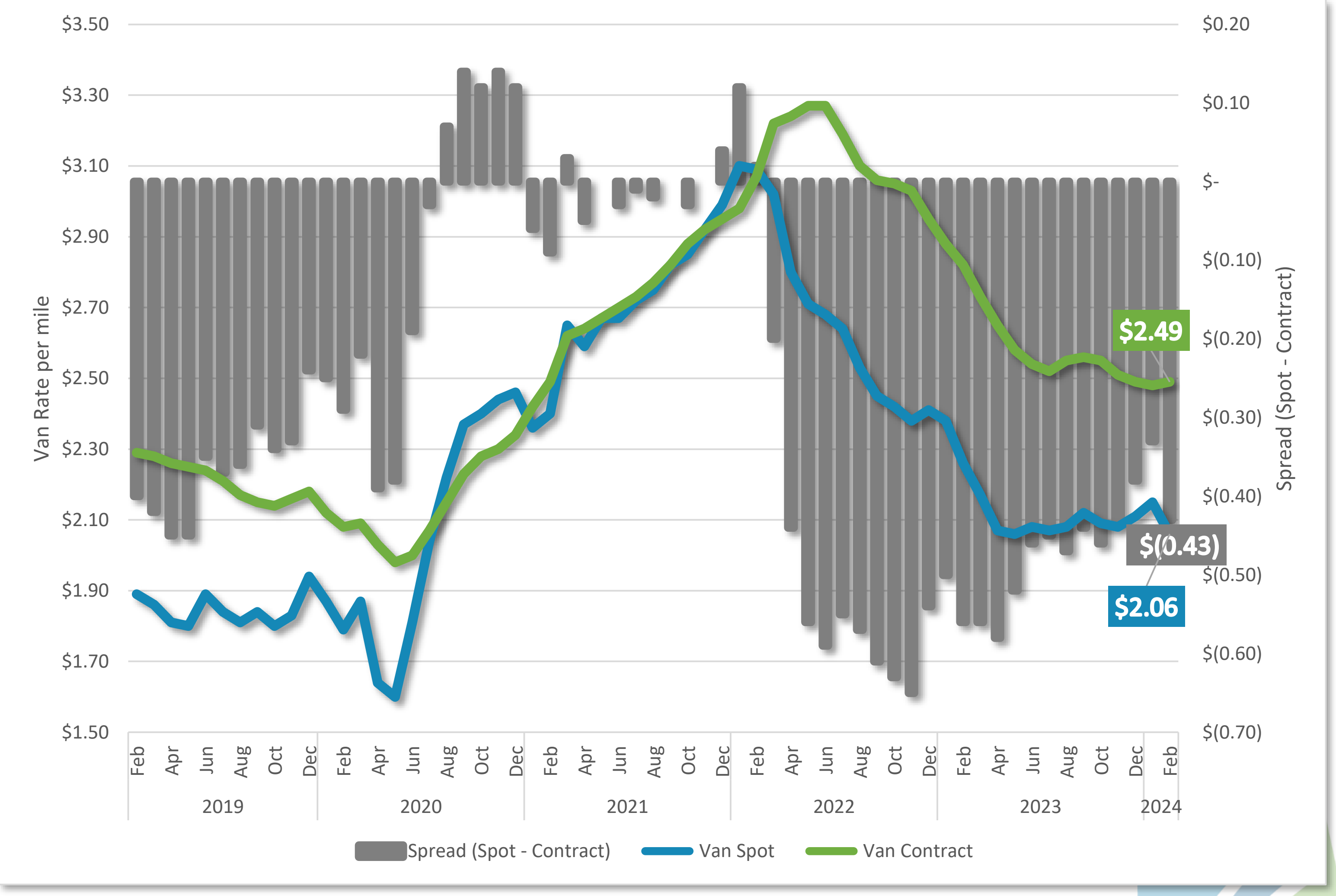
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates fell in February, while contract rates ticked up, deepening the gap between the two.

- Spot rates for vans decreased $0.09 per mile month-over-month to $2.06, ending two months of increases, and are $0.20 per mile lower than last year.
- Contract rates increased by $0.01 to $2.49 per mile following adjustments, which means the spread between contract rates and spot rates deepened by $0.10 to $0.43, which is 23.2% better Y/Y when the spread was $0.56.
- Spot rates are 9.7% below the 5-year trend, while contract rates are 2.9% below.

DAT's ratecast model predicts spot rates excluding fuel will drop about $0.15 per mile heading into the middle of April, but this is probably due to model confusion. Don't expect this forecast to come to fruition.

- DAT's extended forecast has van spot rates excluding fuel tumbling up $0.29 per mile in March, and experiencing a steady decline until June 2024.
- DAT's extended forecast believes rates excluding fuel will reach $1.62 per mile one year from now.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Wholesale Trade: Sales and Inventories

The big picture: Wholesalers act as intermediaries between manufacturers and retailers, purchasing products in bulk and then reselling them to other businesses.

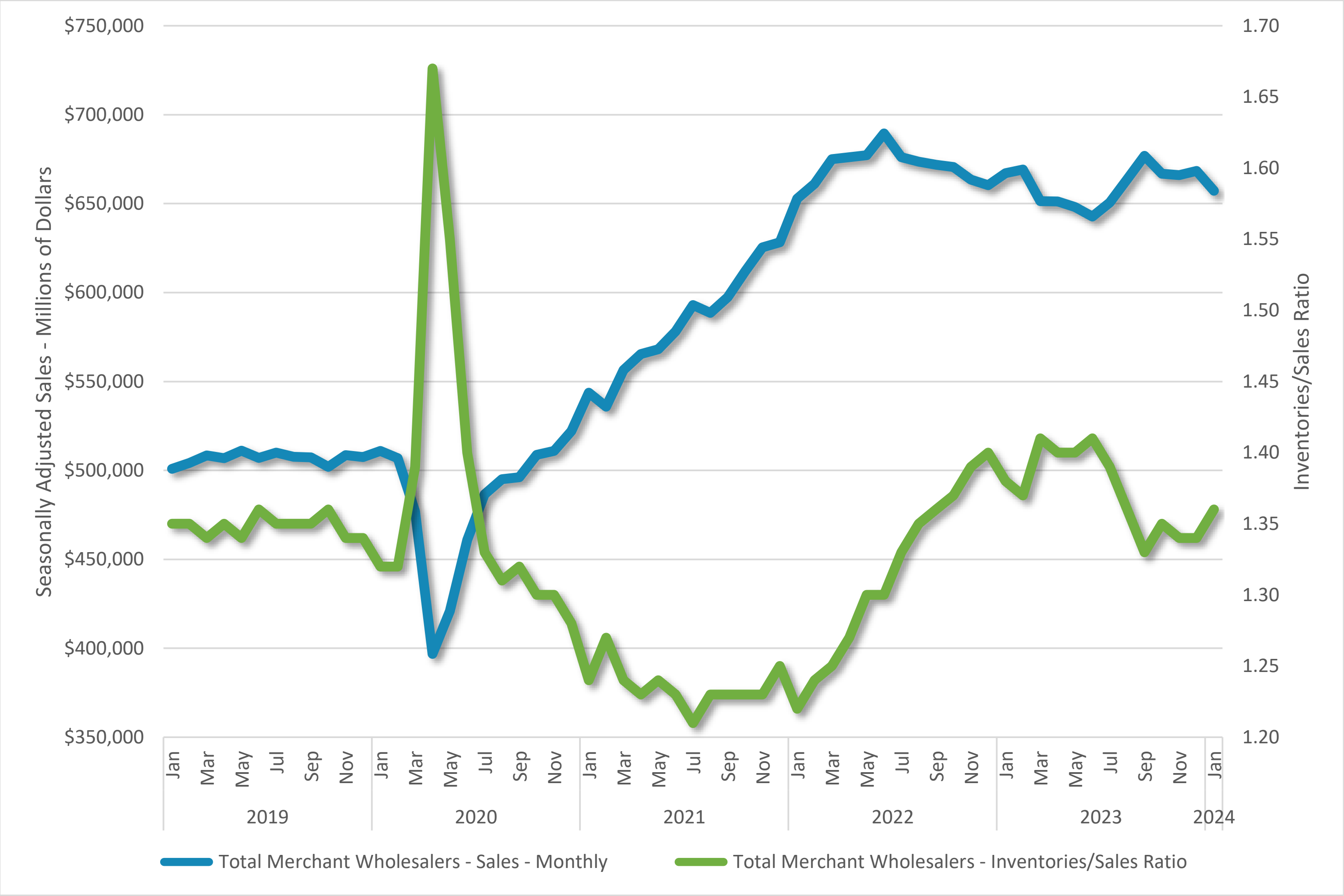
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

Why it matters: Wholesalers account for 30% of for-hire trucking ton-miles and 43% of parcel ton-miles according to the 2017 Commodity Flow Survey.

- Wholesalers' sales and inventory data help us to see which direction freight markets are headed.
- And the lower the inventory that businesses have on hand, the greater they need freight transportation to restock their goods.

Our thoughts: Inventory-to-sales ratios increased, while monthly sales declined in January. While the inventory-to-sales ratios fallen from their peak in July 2023, demand has not increased, which is why the current freight downcycle is continuing even despite inventory rightsizing.

- Sales decreased \$11.17 billion to \$657.15 billion, and are 1.5%, or \$10 billion, lower year-over-year. This is the eight Y/Y decreases in 12 months.
- Ratios increased 1.5% month-over-month to 1.36, and are 1.4% lower than last year, marking five straight months of Y/Y decline. Ratios are 0.9% higher than the 2019 average.



Source: U.S. Census Bureau | https://www.census.gov/econ/currentdata/ | Monthly

Wholesale Trade: Furniture and Appliances

The big picture: The U.S. Census Bureau reports monthly sales and inventory data for different types of industries, including:

- Furniture and Home Furnishings
- Household Appliances, Electrical, and Electrical Goods

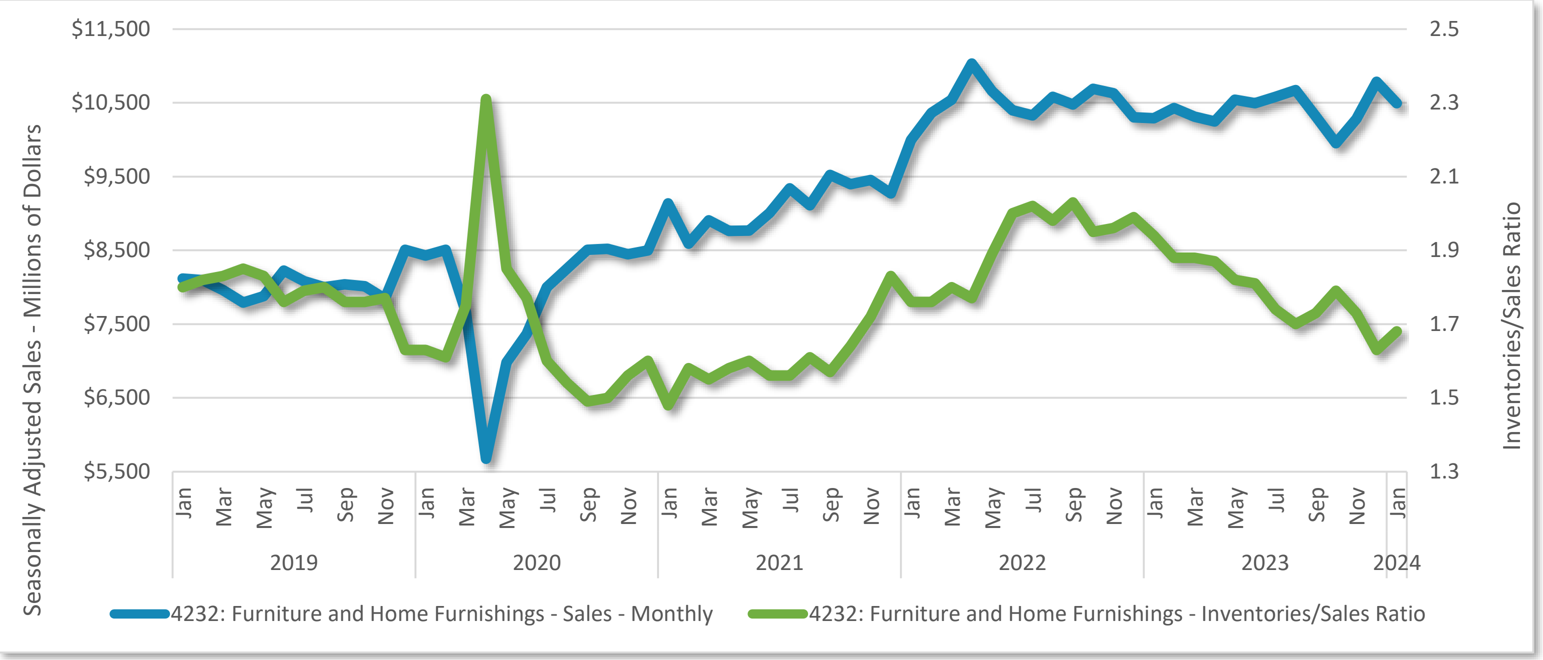
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

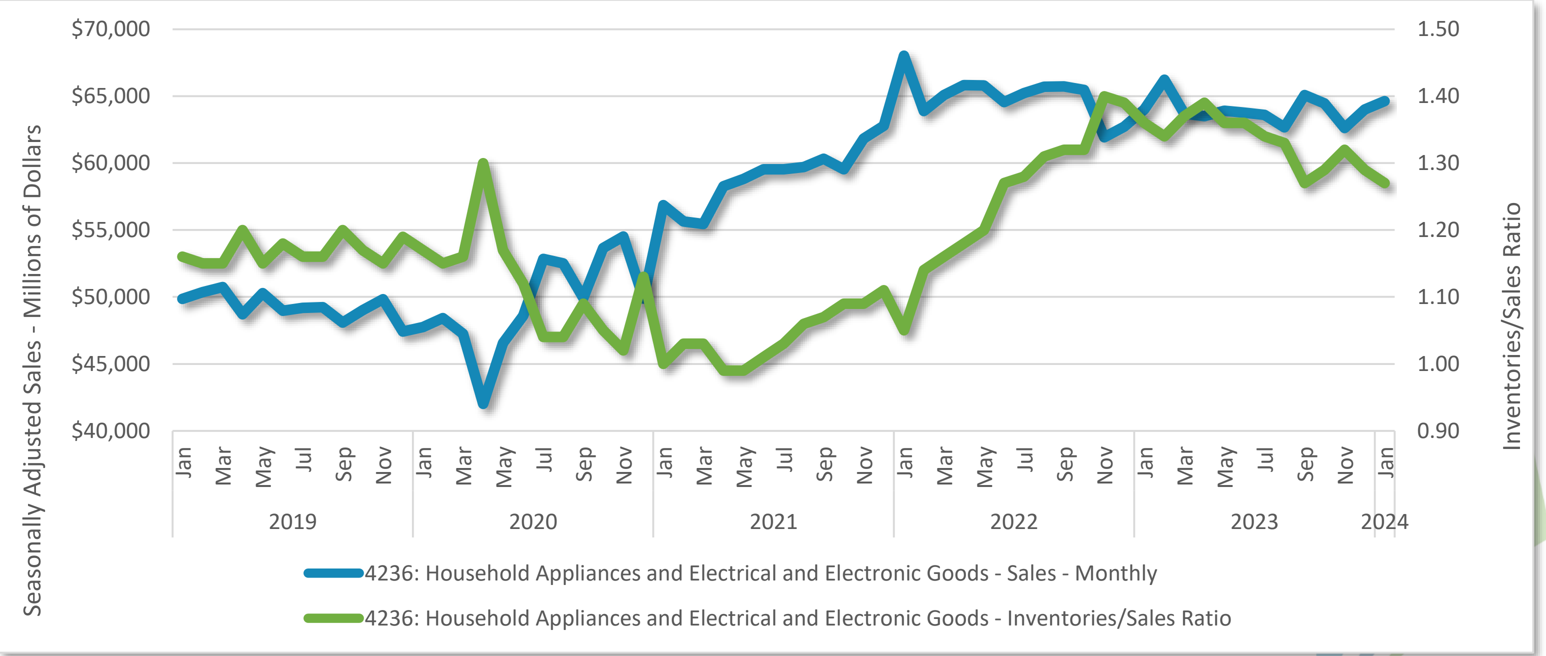
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Household appliance wholesalers experienced an increase in sales while inventory ratios simultaneously decreased in January. Furniture, however, moved the opposite direction.

- Furniture Sales decreased 2.7% to $10.49 billion after increasing 4.9% in the previous month, while ratios jumped 3.2% to 1.63.
- Compared to last year, sales increased $204 million, or 2.0%, and ratios have decreased 13.8%.
- Household appliances sales increased 1.0% to $64.62 billion, and ratios decreased 1.6% to 1.27.
- Sales are $624 million higher than last year, marking three straight months of Y/Y increases, and ratios are 6.6% lower, marking five straight months of Y/Y decreases.

Although inventory levels are lower now than at the start of 2023 (13.8% for furniture and 6.6% for household appliances), increased demand has yet to materialize for both of these industries. Without an uptick in demand, the freight cycle will remain in its current trough.





Source: U.S. Census Bureau | https://www.census.gov/econ/currentdata/ | Monthly

Advanced Retail Sales: Electronics, Furniture, and General Merchandise

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods. These are broken down into several categories, including:

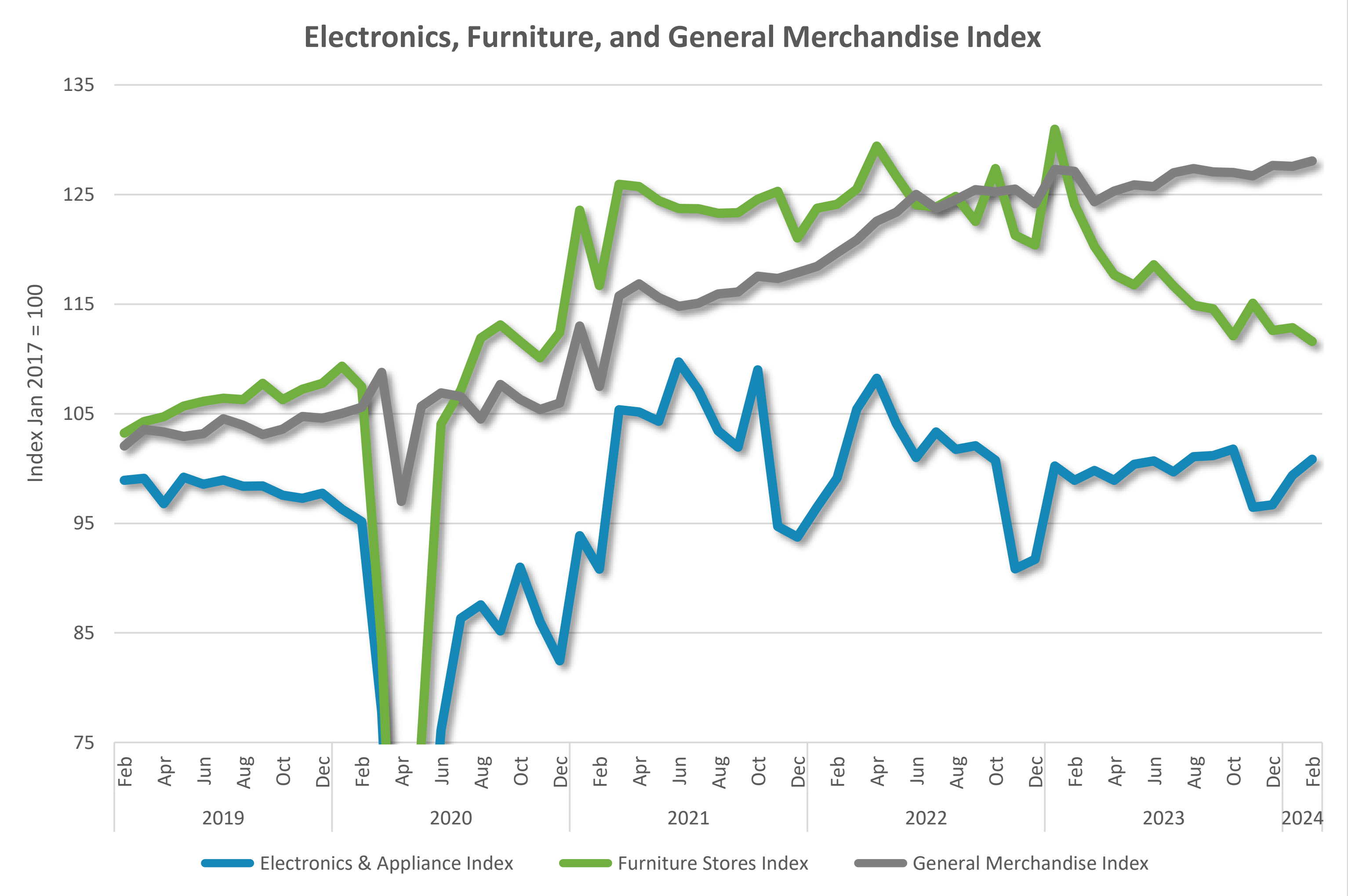
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco, Kohl's, etc.

Why it matters: Retail sales can give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: Seasonally adjusted retail sales for EAS and GMS grew in February compared to January, while FS continued its steady decline.

- EAS increased 1.5%, or $113 million, M/M to $7.77 billion, marking two straight months of increases following adjustments last month. EAS is 1.9%, or $148 million, higher Y/Y.
- FS decreased 1.1% M/M to $10.59 billion, and is 10.1%, or $1.2 billion, lower Y/Y. FS has declined Y/Y for 13 straight months.
- GMS increased 0.4% M/M, or $272 million, to $73.78 billion, and is up 0.7%, or $546 million, Y/Y.



Source: FRED | https://fred.stlouisfed.org/series/RSEAS | https://fred.stlouisfed.org/series/RSFHFS | https://fred.stlouisfed.org/series/RSGMS | Monthly

Flatbed Market Outlook

Flatbed Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the Flatbed market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the flatbed market:

1. Total Construction Spending
2. Highway and Street Construction Spending
3. Housing
4. Advanced Retail Sales: Building Materials

Demand: Flatbed Load-to-Truck Ratios

The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

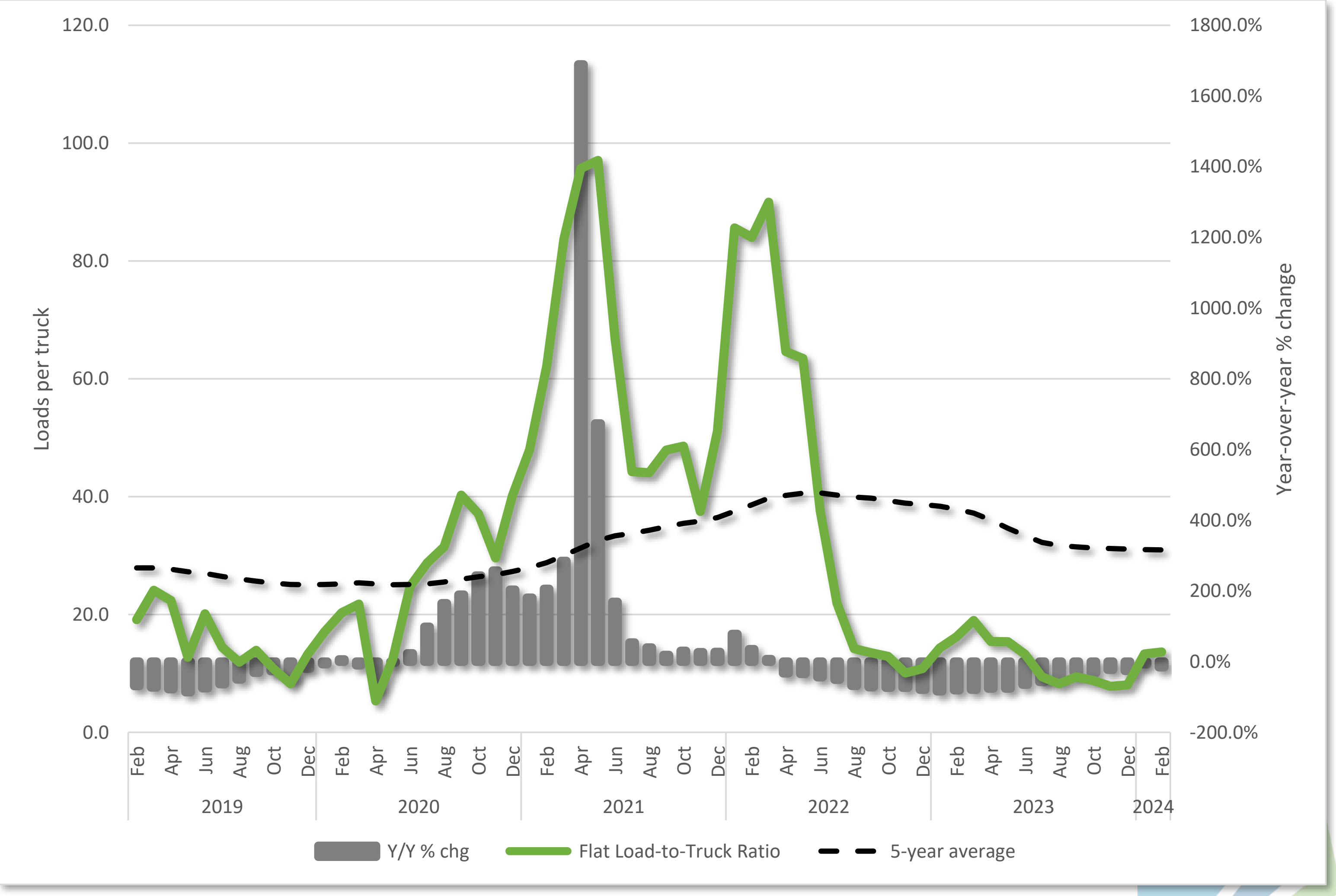
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Load posts increased again in February, which is fairly typical for this time of year. The ratio is still 13.6% below 2019 levels.

- The Flatbed Load-to-Truck Ratio increased 2.6% month-over-month to 13.65, after jumping 65.1% last month.
- The ratio has decreased 15.8% compared to last year when there were 16.22 loads for every truck. The ratio has declined year-over-year for 23 straight months.
- The ratio is 55.9% below the 5-year trend.

When looking at the different regions across the country, ratios were more favorable for carriers operating in the Southeast, Lower Atlantic, and Carolina regions, respectively.

- 7 out of 16 regions experienced an increase in load-to-truck ratios for flatbed. The greatest being the South Central region, which jumped from 6.21 to 11.12.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Rates: Flatbed Spot and Contract Rates

The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes

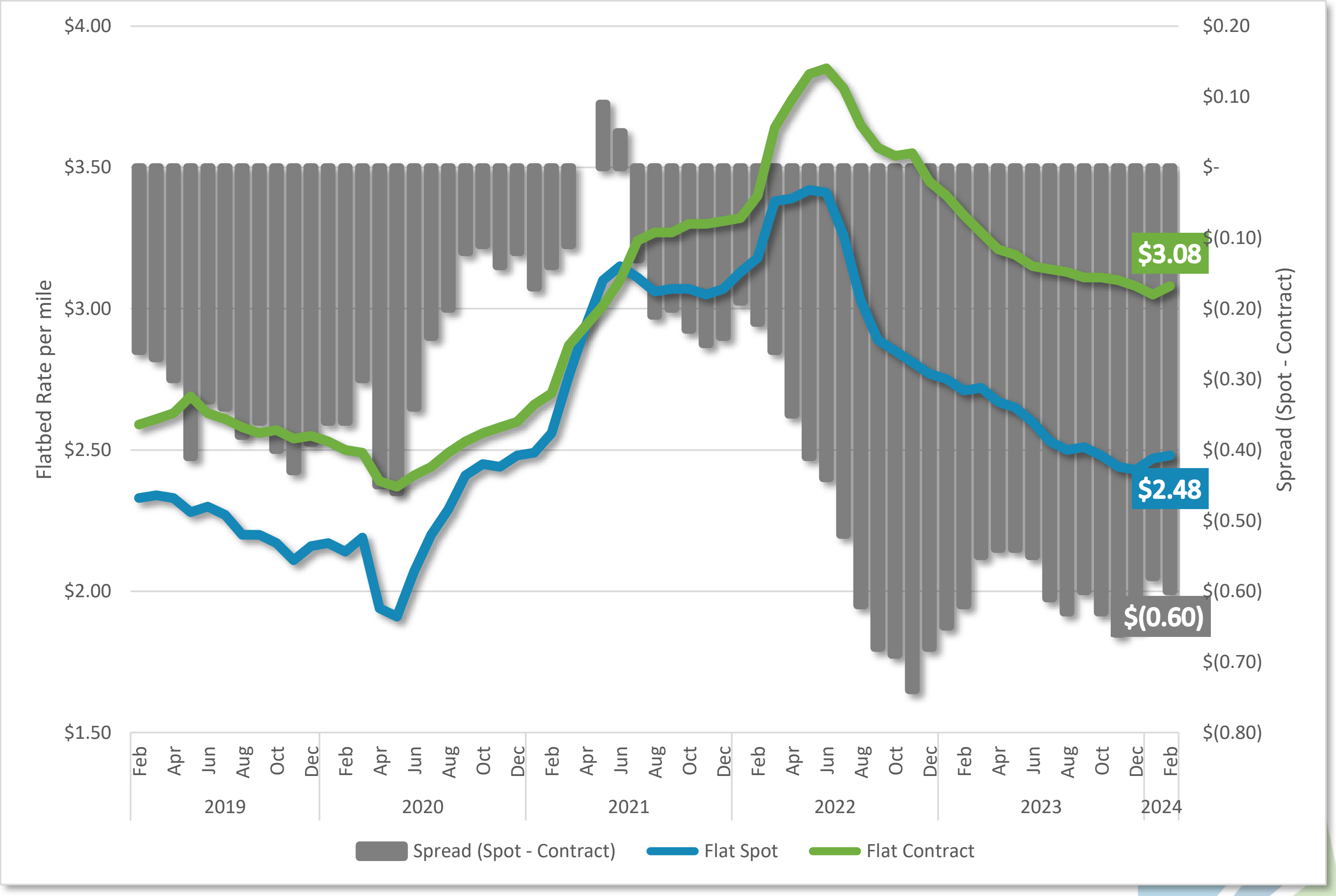
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked upward again in February, after increasing $0.04 per mile last month.

- The spot market increased $0.01, or 0.4%, to $2.48 per mile month-over-month, and is $0.23 lower year-over-year when it was $2.71.
- The contract market increased $0.03 to $3.08 per mile following adjustments, which is $0.25 lower than last year.
- The spread between contract and spot grew $0.02 to $0.60, which is 3.2% better than a year ago.

DAT's ratecast predicts that spot rates excluding fuel will tick upward but then descend back down so that rates will reach where we started as we get into the middle of April.

- DAT's extended forecast predicts that flatbed spot rates excluding fuel will plummet $0.14 in March and then steadily decline until June 2024.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Construction: Overall and Streets

The big picture: The U.S. Census Bureau measures the amount of spending that goes toward new construction every month.

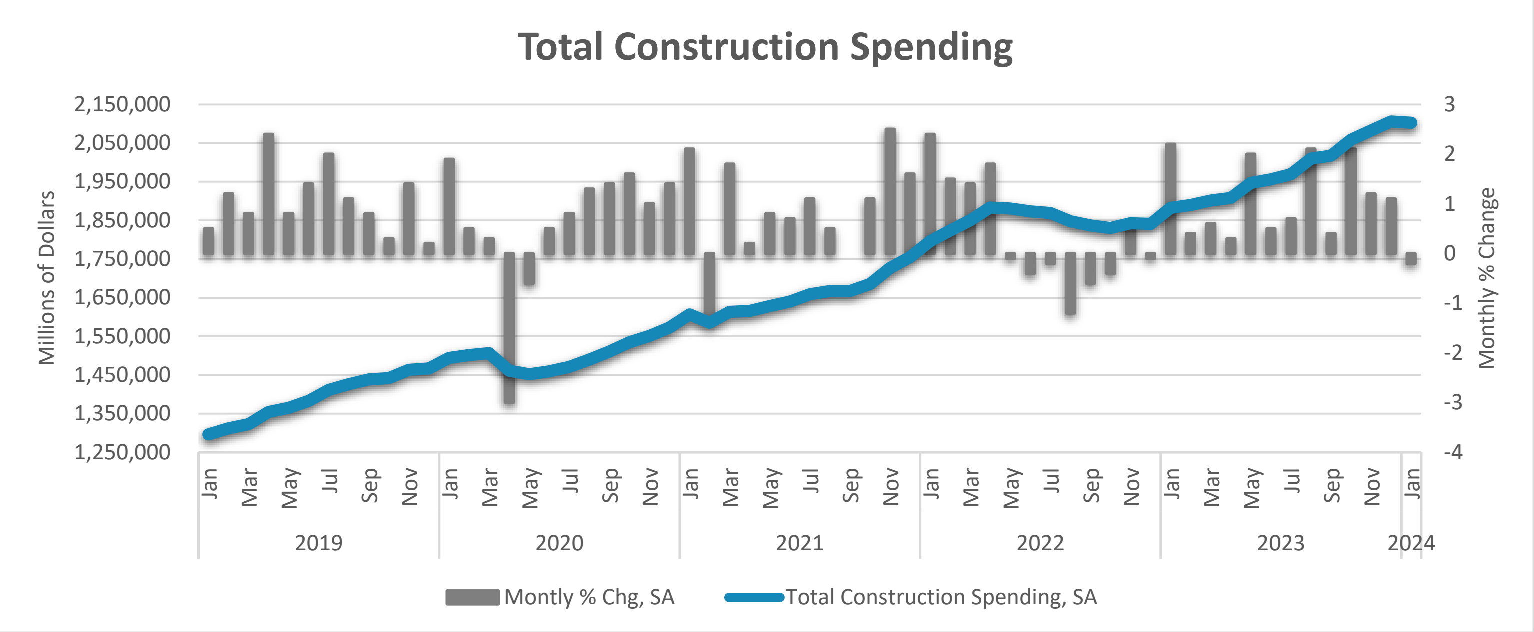
- Construction spending encompasses various expenses, such as labor and materials,
- and sectors, such as highway and street spending.

Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

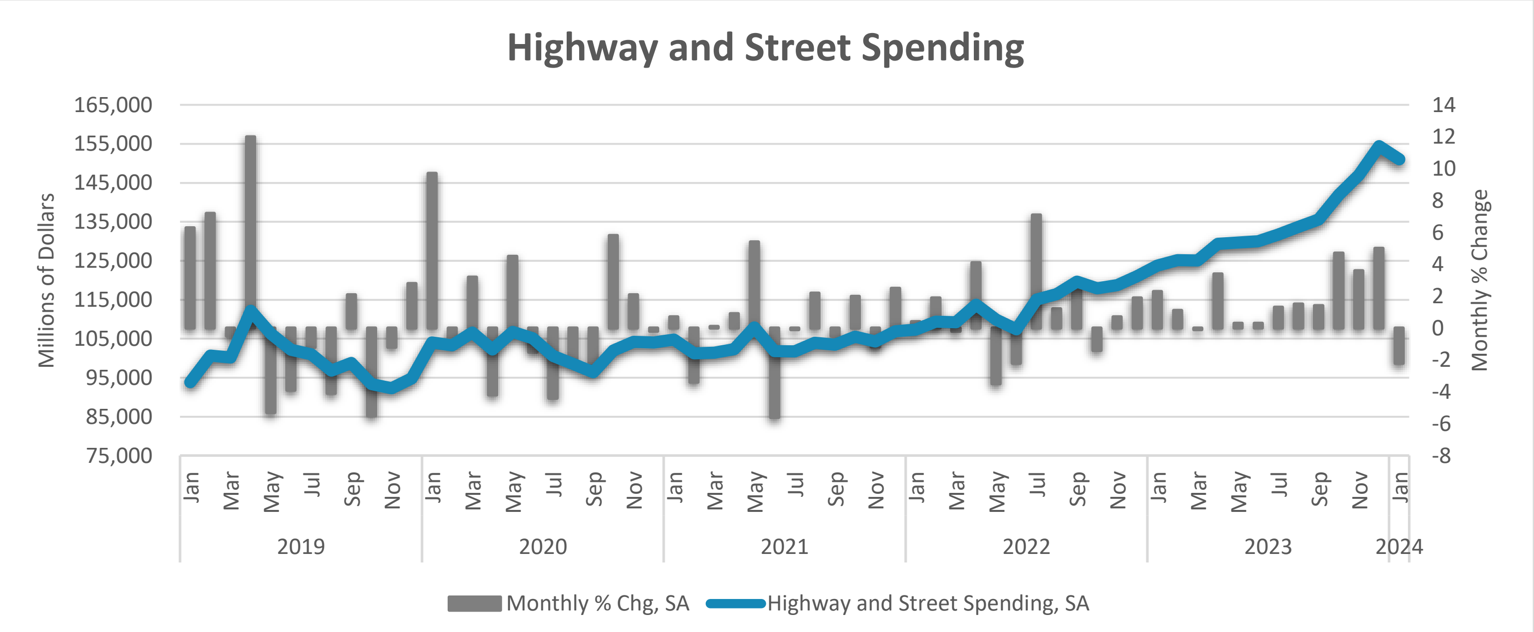
- It also is a good indicator of future demand for those owner-operators pulling flatbed trailers, as a variety of materials and goods are transported this way to construction sites.

Our thoughts: Total construction spending (TCS), highways and streets (HSS) spending, and non-residential spending (NRS) decreased in January.

- TCS decreased for the first time in 13 months by 0.2%, or $3.36 billion, to $2.102 trillion, which is $220.2 billion, or 11.7%, higher year-over year, and 25.1% above the 5-year trend.
- HSS decreased for the first time in 15 months by 2.2% to $151.08 billion after being adjusted upward in December, and is up 22%, or $27.28 billion, year-over-year.
- NRS, not pictured, fell 0.4% to $1.19 trillion, ending 19-months of consecutive increases. NRS is up 17.1% year-over-year, and 30% above the 5-year trend.



Source: FRED| https://fred.stlouisfed.org/graph/?id=TTLCONS,MPCTXXXXS, | Monthly



Source: FRED| https://fred.stlouisfed.org/graph/?id=TLHWYCONS,MPCT12XXS, | Monthly

Housing: Starts, Under Construction, Completed

The big picture: The U.S. Census Bureau publishes monthly estimates on the number:

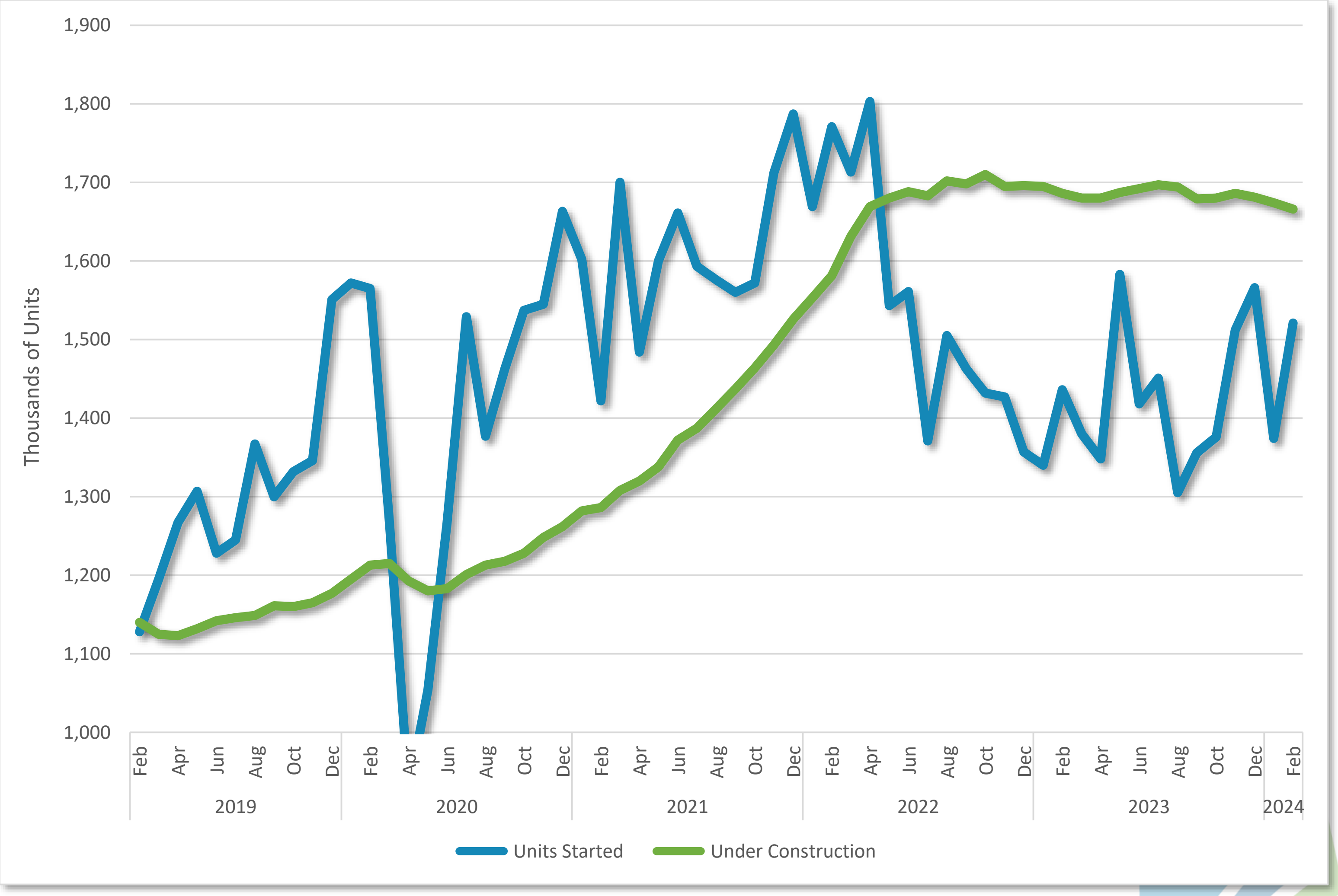
- Housing starts, and
- Housing under construction.

Why it matters: New housing is an important capital good that spurs additional consumer spending on appliances and furniture.

- It's a key economic indicator, especially for the flatbed trucking sector, which hauls a variety of building materials.

Our thoughts: Housing starts jumped in February following a 12.3% plummet in January after adjustments. Housing continues to remain resilient even despite the higher interest rates, and perhaps because of the higher interest rates. Homeowners are more likely to stay in current homes because they were able to lock in lower rates, meaning that the only option people have is to build new homes due to low inventory of homes on the market.

- New starts increased 10.7%, or 147,000 houses, month-over-month to 1.521 million, and are up 5.9%, or 85,000 homes year-over-year (Y/Y).
- Houses under construction ticked downward 0.5% to 1.666 million, and are 1.2% lower Y/Y.
- Completed houses jumped 19.7% month-over-month and are up 9.6%, or 152,000 homes, Y/Y.



Source: FRED | https://fred.stlouisfed.org/series/HOUST and https://fred.stlouisfed.org/series/UNDCONTSA| Monthly

Advanced Retail Sales: Building Materials, Garden Equipment, Supplies Dealers

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods.

- These are broken down into several categories, including building materials, garden equipment, and supplies dealers (BMGESD).

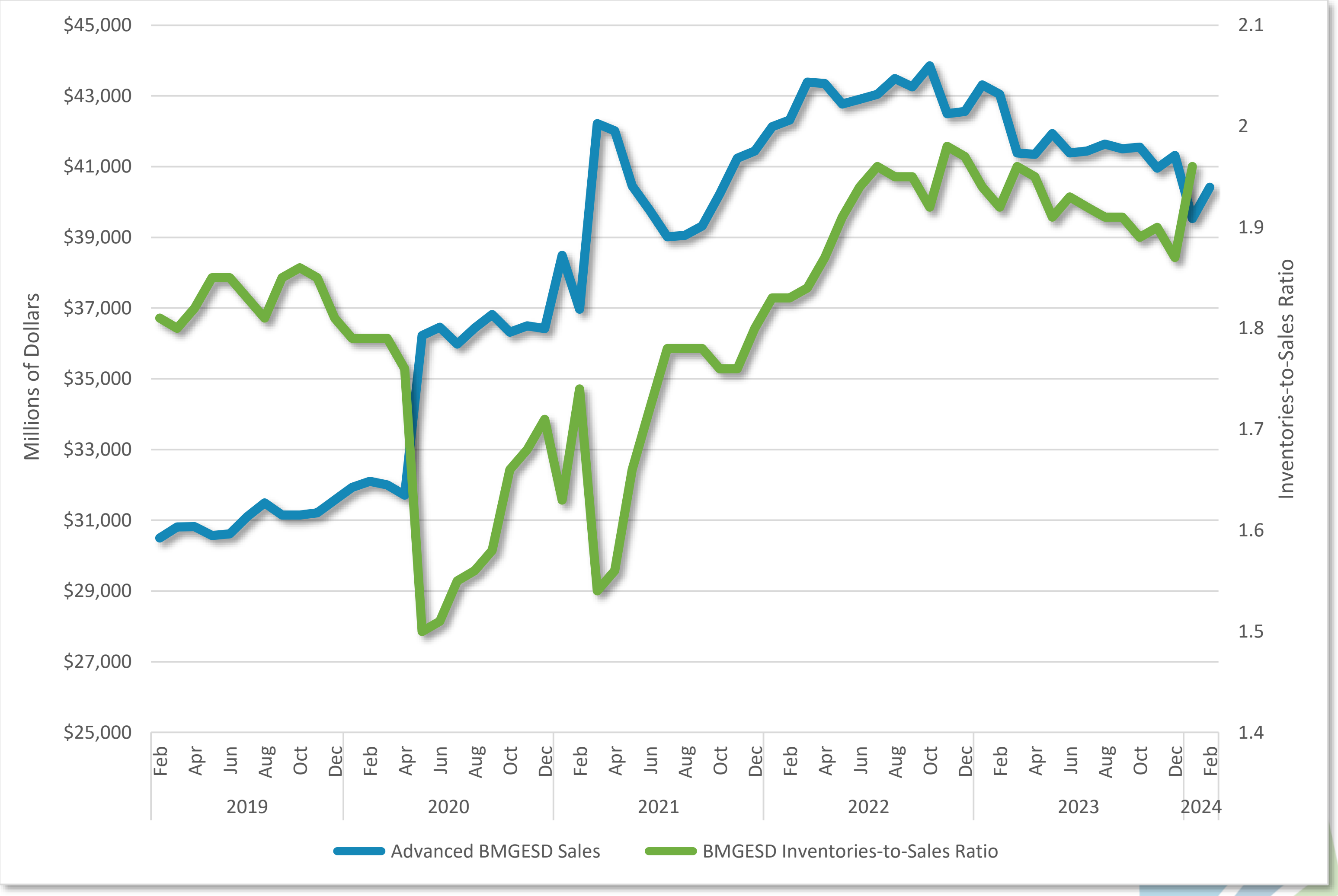
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: BMGESD sales rose in February after decreasing 4.3% in January following adjustments, but inventories also increased in January even as retailers continue to right-size their inventories.

- The BMGESD retail sales increased 2.2% month-over-month to $40.42 billion, and are 6.1%, or $2.6 billion, lower year-over year.
- Sales are $2.1 billion higher than the 5-year average.
- Inventories-to-sales ratios jumped 4.8% to 1.96 in January, and are 2.1% higher year-over-year.

BMFESD retailers continue to struggle with high inventory levels. In fact, inventories are 7.3% above 2019 levels. This a headwind for future freight demand, as demand overall remains low.



Source: FRED | https://fred.stlouisfed.org/series/RSBMGESD | Monthly

Reefer Market Outlook

Reefer Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the reefer market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine three key economic indicators that directly impact the reefer market:

1. USDA Average Refrigerated Truck Rates
2. USDA Refrigerated Truck Volumes
3. USDA Truck Availability Data

Demand: Reefer Load-to-Truck Ratios

The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity.

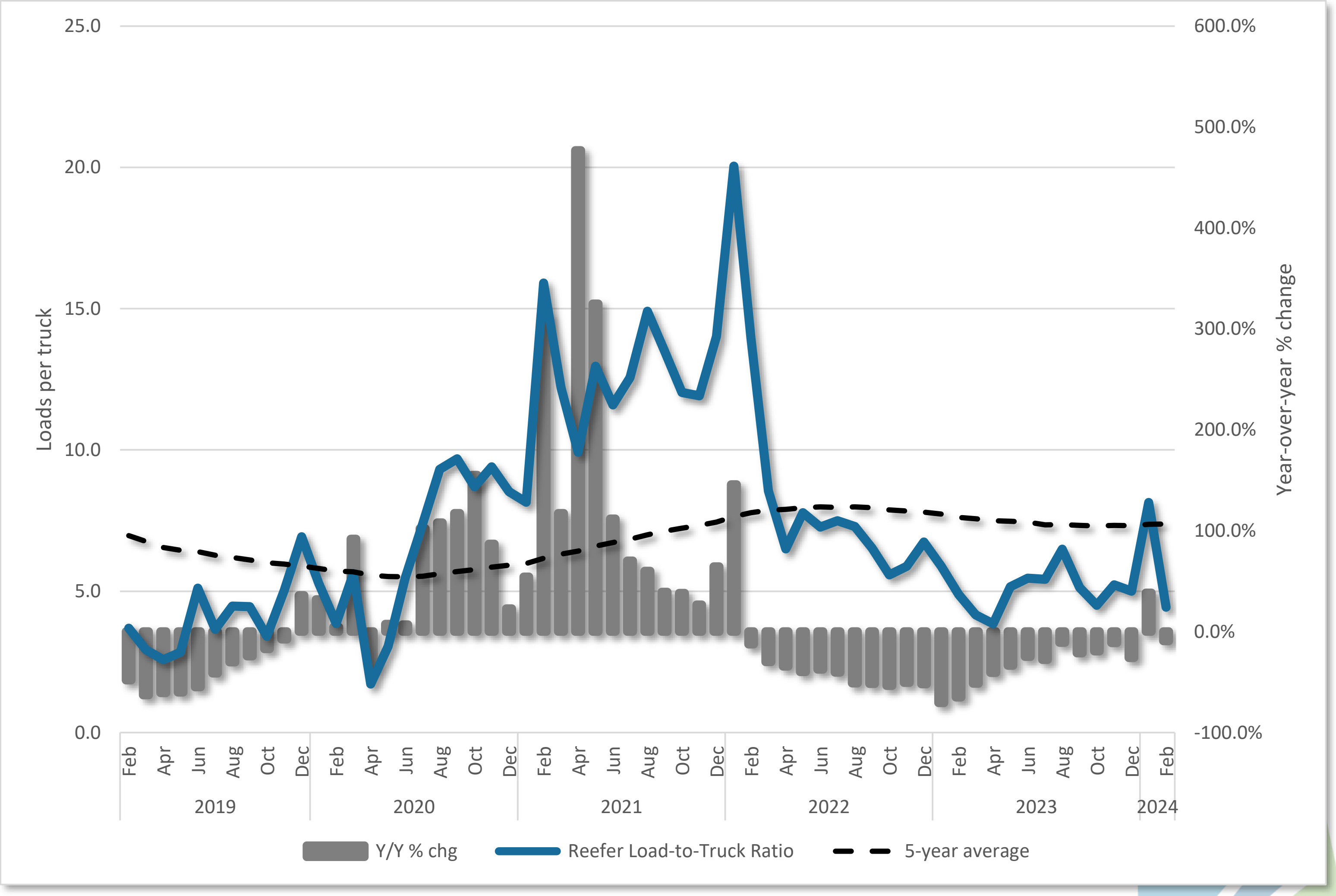
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Reefer demand moved plunged in February following a 62.8% increase in the previous month. This follows the usual seasonal trend.

- The ratio fell 45.5% month-over-month to 4.44 loads to every one truck posted.
- The ratio is 9.2% lower than last year when the ratio was 4.89, and is 39.8% below the 5-year trend.
- The ratio has declined year-over-year for 23 out of 24 months. January 2024 was the lone increase.

When examining the different regions of the country, conditions were more favorable for carriers operating in the South Central, Southeast, and Lower Mountain regions, respectively.

- Just one out of 16 regions experienced an increase in load-to-truck ratios for reefer, that being the Florida-to-Georgia, which increased 0.9% to 5.11.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Rates: Reefer Spot and Contract Rates

The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes

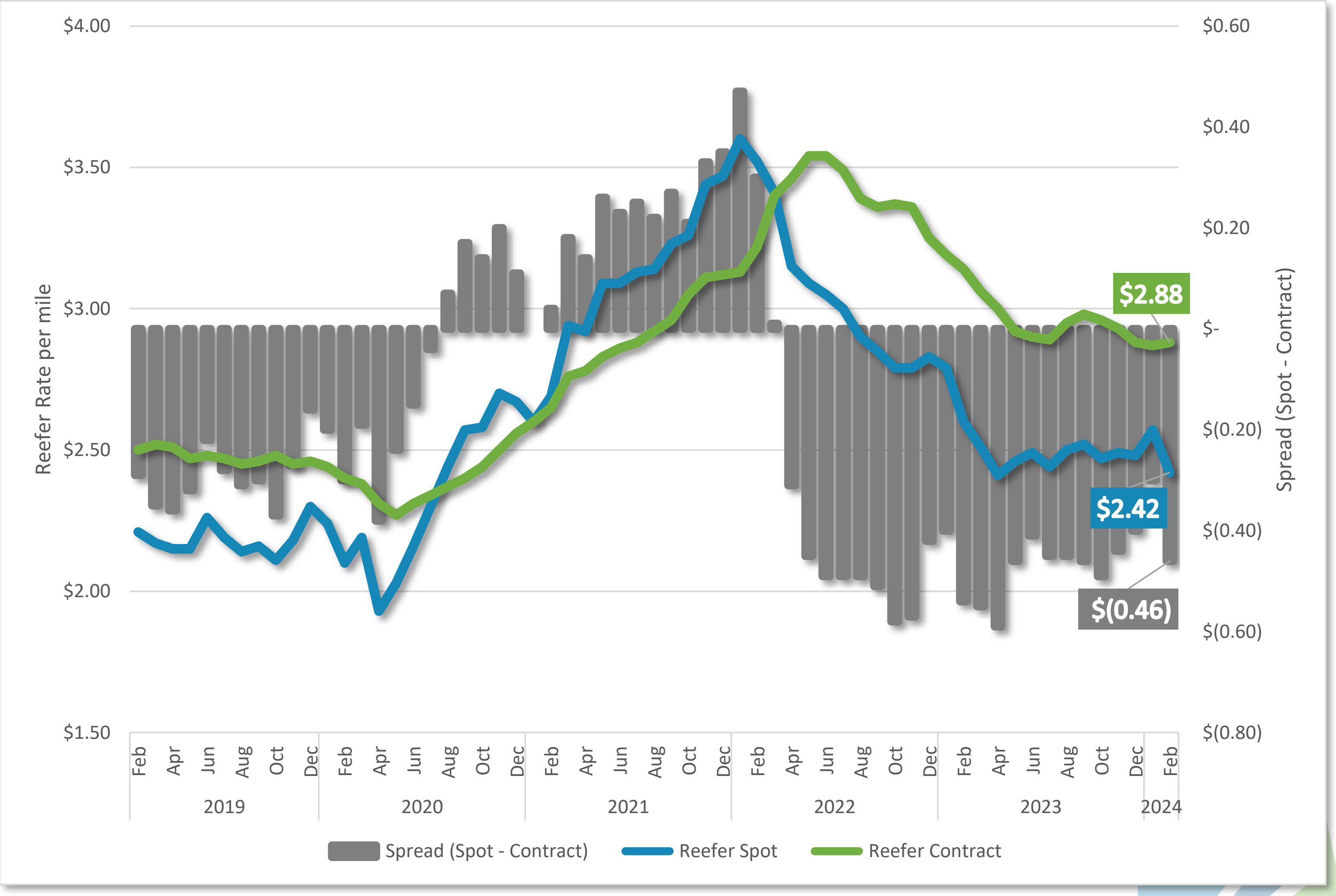
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates plunged month-over-month in February following a 3.6% increase in the previous month following adjustments.

- Spot rates decreased $0.15, or 5.8% to $2.42 per mile, and are down $0.18 since last year.
- Contract rates on the other hand, increased $0.01 to $2.88 per mile, which is $0.26 below where we were last year.
- The spread between spot and contract grew $0.16 to $0.46 but is 14.8% better compared to a year ago.

DAT's ratecast is forecasting that spot rates excluding fuel will drop $0.15 as we get into the middle of April due to model confusion. Don't expect this forecast to come to fruition.

- DAT's extended forecast for reefer spot rates excluding fuel predicts that rates will plummet $0.33 in February to $1.93, and then decrease steadily until May 2024.



Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Fruit and Vegetable Industry: USDA Average Truck Rates

The big picture: The U.S. Department of Agriculture (USDA) collects data concerning the average truck rates for hauling fruit and vegetable goods.

- USDA averages the rates over region and commodity.

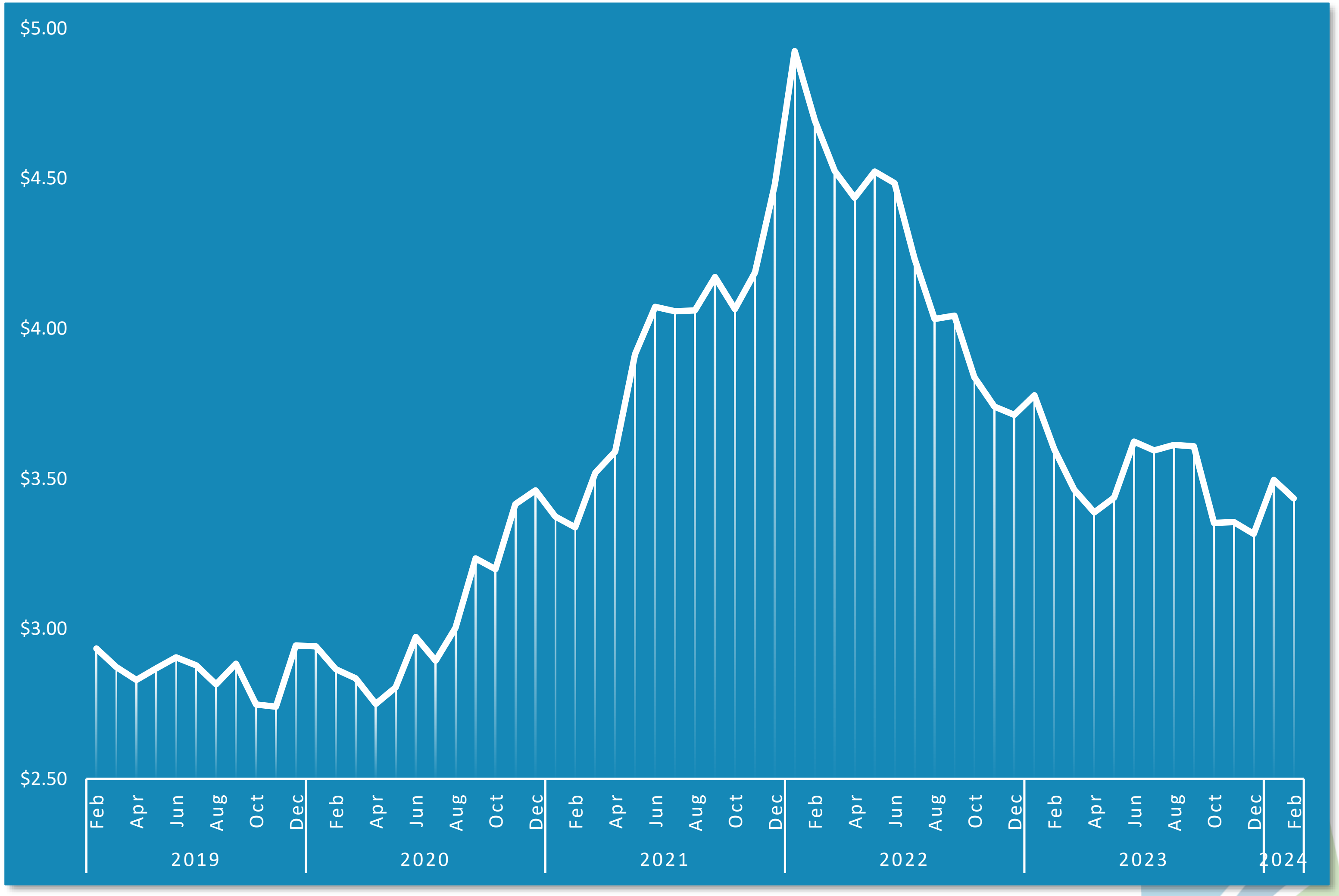
Why it matters: Produce requires fast and efficient movements of perishable commodities.

- The USDA published rates gives the owner-operator a pulse of the reefer market.

Our thoughts: Fruit and vegetable reefer rates are 30.3%, or $1.49 per mile, below their high in January 2022.

- Rates per mile decreased 1.8%, month-over-month to $3.43 in February, after surging 5.4% in January, which follows the typical seasonal trend.
- Rates are $0.16 per mile, or 4.6%, lower year-over-year, and are $0.09 per mile, or 2.5%, lower than the five-year trend.

According to USDA, carriers in the Mexico-Texas region experienced the greatest decrease in pay per mile month-over-month, falling $0.24 per mile to $2.75, after rising $0.39 per mile in the previous month. No region experienced an increase in compensation in February.



Source: USDA| https://agtransport.usda.gov/stories/s/56s5-rpde | Weekly

Fruit and Vegetable Industry: Truck Volume

The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

Why it matters: This information is a barometer for the health of the overall reefer market.

- It also provides visibility into what exactly is driving reefer rates, either volume, capacity, or a combination of both.

Our thoughts: Reefer volumes fell again in February after experiencing a 6.4% decrease in January following adjustments. The chart depicts that volumes are significantly underperforming compared to previous years.

- Reefer volumes decreased 11.7% month-over-month to 479,793 pounds, and are 19.3%, or 115,017 pounds, lower year-over-year. Volumes are 25.3% below the 5-year trend.
- The California region decreased 18.9% month-over-month, and is 82.9% lower compared to last year.
- Every region except two experienced decreases in volumes, including Mexico-New Mexico, New York, and Texas. In fact, 88% of the regions saw volumes fall month-over-month.
- The Arizona region was the only one to experience an increase in February. It increased 4.4% to 43,932 pounds.

Source: USDA| https://agtransport.usda.gov/stories/s/56s5-rpde | Weekly

Fruit and Vegetable Industry: Truck Availability

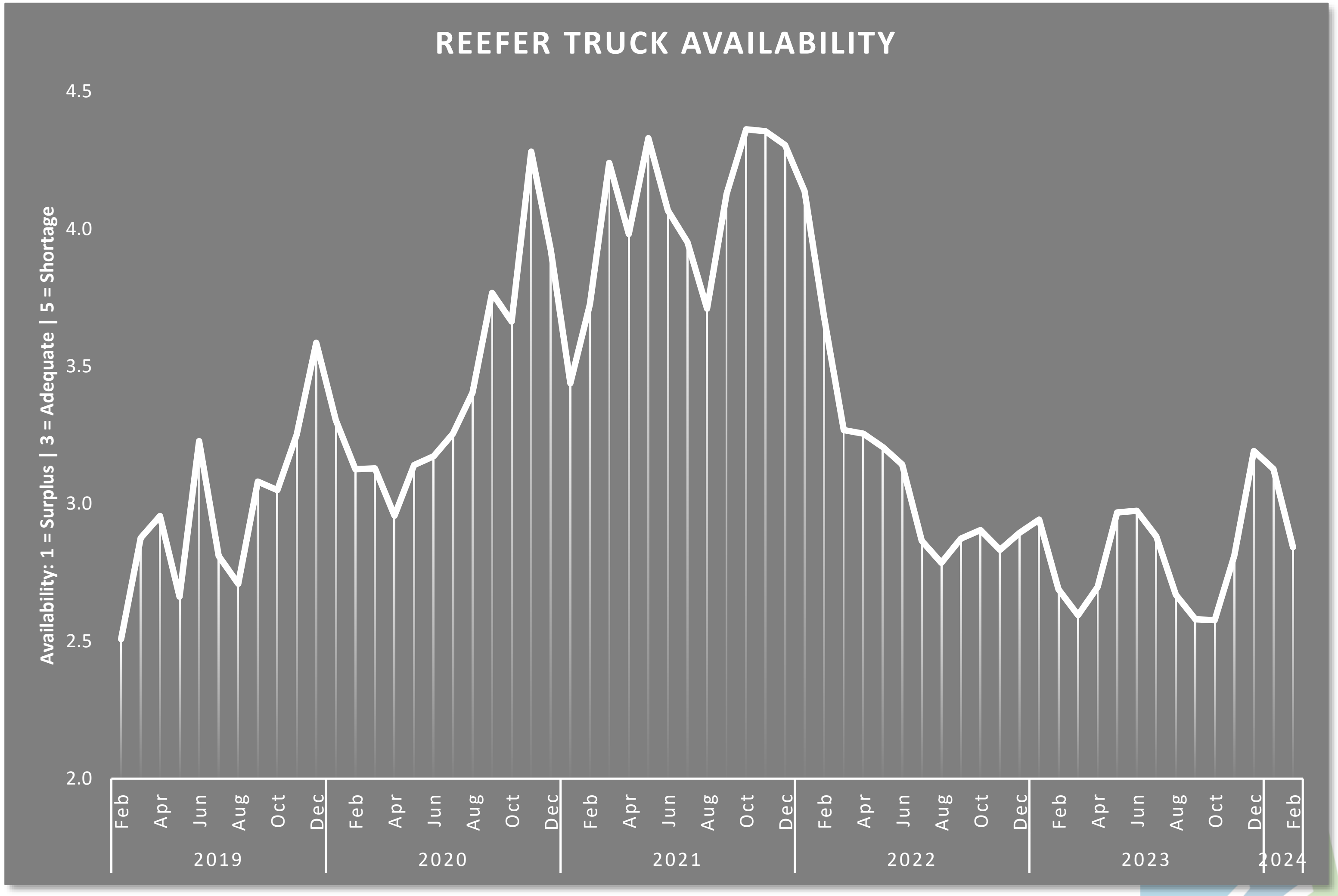
The big picture: The USDA's Crops report includes daily fruit and vegetable data for refrigerated truck availability across different regions and commodities.

Why it matters: This information is a barometer for the health of the overall reefer market.

- **Reefer Truck Availability** is coded on a scale of 1 to 5, 1 representing a surplus and 5 representing a shortage of trucks.

Our thoughts: Reefer truck capacity loosened even further in February as both rates and volumes declined overall.

- Reefer truck availability loosened to 2.84. Availability is down 5.7% over the previous year when it was 2.69.
- Capacity either remained flat or loosened for every region in the country. In fact, 45% of the regions loosened while 55% remained flat. No regions tightened in February.
- Conditions in California loosened from 3.10 to 2.95, which is unusual for this time of year. Weather continues to wreak havoc on CA produce.



Source: USDA | https://agtransport.usda.gov/stories/s/56s5-rpde | Monthly

Trucking Market Update

Trucking Market Update

OOFI designed this update to help the owner-operator gain insight into the current conditions of today's freight market. To do so, we will look at four key categories:

1. **Volume** levels help us to see how much freight needs to be moved overall.
2. **Supply/Demand** shows us how many trucks there are in the market and how many are needed.
3. **Rates** illustrate how much the average owner-operator can expect to currently earn.
4. **Operating Costs** depict the every-day expenses for the average owner-operator.

The bottom line: OOFI will breakdown each category and explain how they pertain to you as a small business owner.

Volume: Transportation Service Index (TSI)

The big picture: TSI measures the volume of freight moved monthly by the *for-hire transportation sector* in the United States.

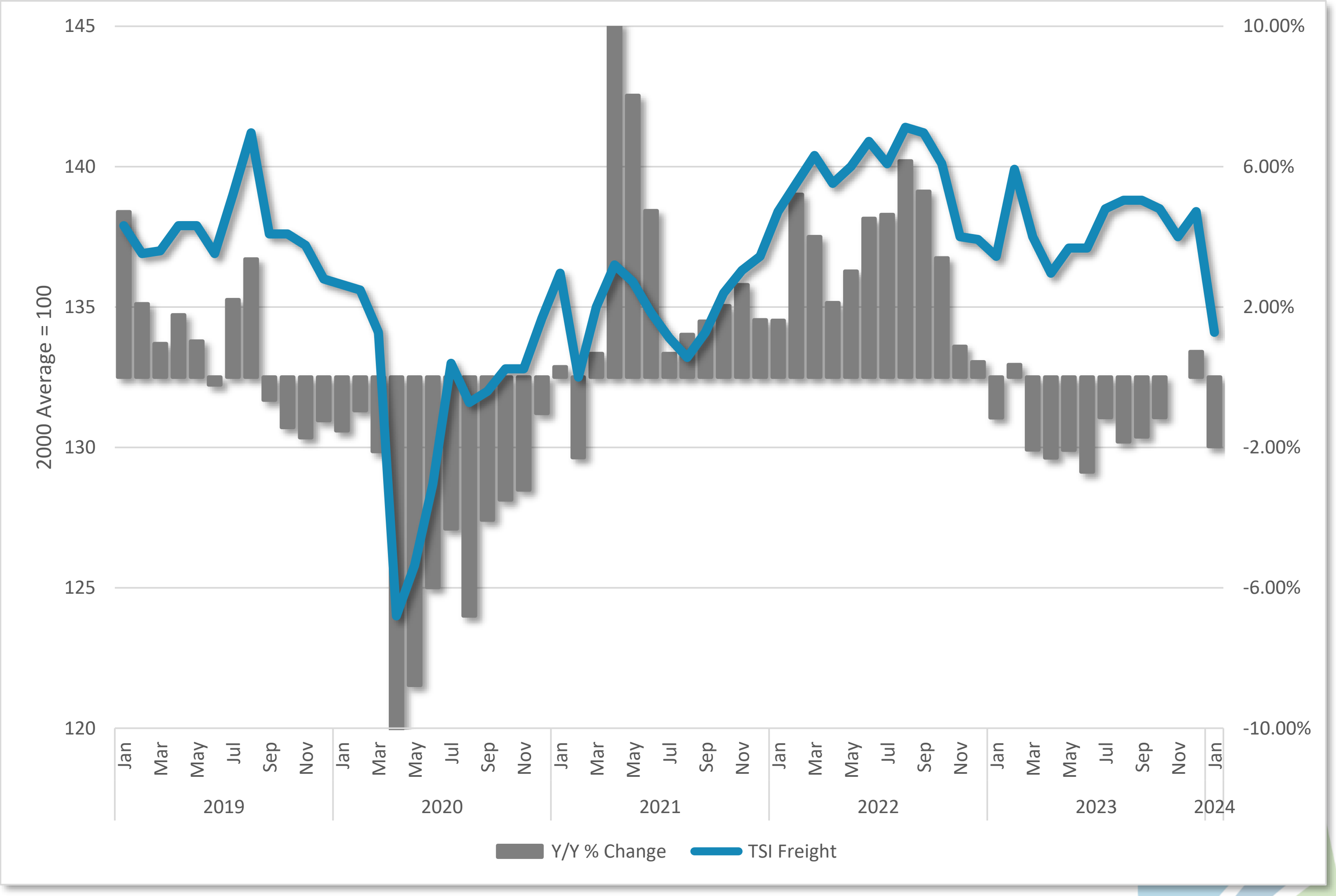
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- For example, demand for freight typically increases in periods of economic expansion.
- The TSI captures this demand for transportation by increasing as well.

Our thoughts: Freight volumes decreased in January due to seasonally adjusted decreases in air, intermodal, rail, and trucking, while pipeline and water increased.

- The TSI decreased 3.1% month-over-month to 134.1, and is 2.0% lower than a year ago. Following adjustments, the TSI has only increased year-over-year two times in the past 13-months.
- January was 5.2% below the all-time high of 141.1 in August 2022.

January's decrease came in the context of mixed results for other indicators. The Industrial Production Index declined 0.1%, reflecting decreases in manufacturing and mining, while utilities increased. Housing starts were down 14.8%, and personal income increased 1.0%.



Source: BTS | https://data.bts.gov/stories/s/TET-indicator-1/9czv-tjte | Monthly

Note: TSI Freight Index is a weighted average of monthly data for trucking, freight rail, waterborne, pipeline, and air freight.

Volume: Cass Shipment Index

The big picture: The Cass Shipment Index includes data from all domestic freight modes with trucking accounting for more than 75% of all activity.

- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

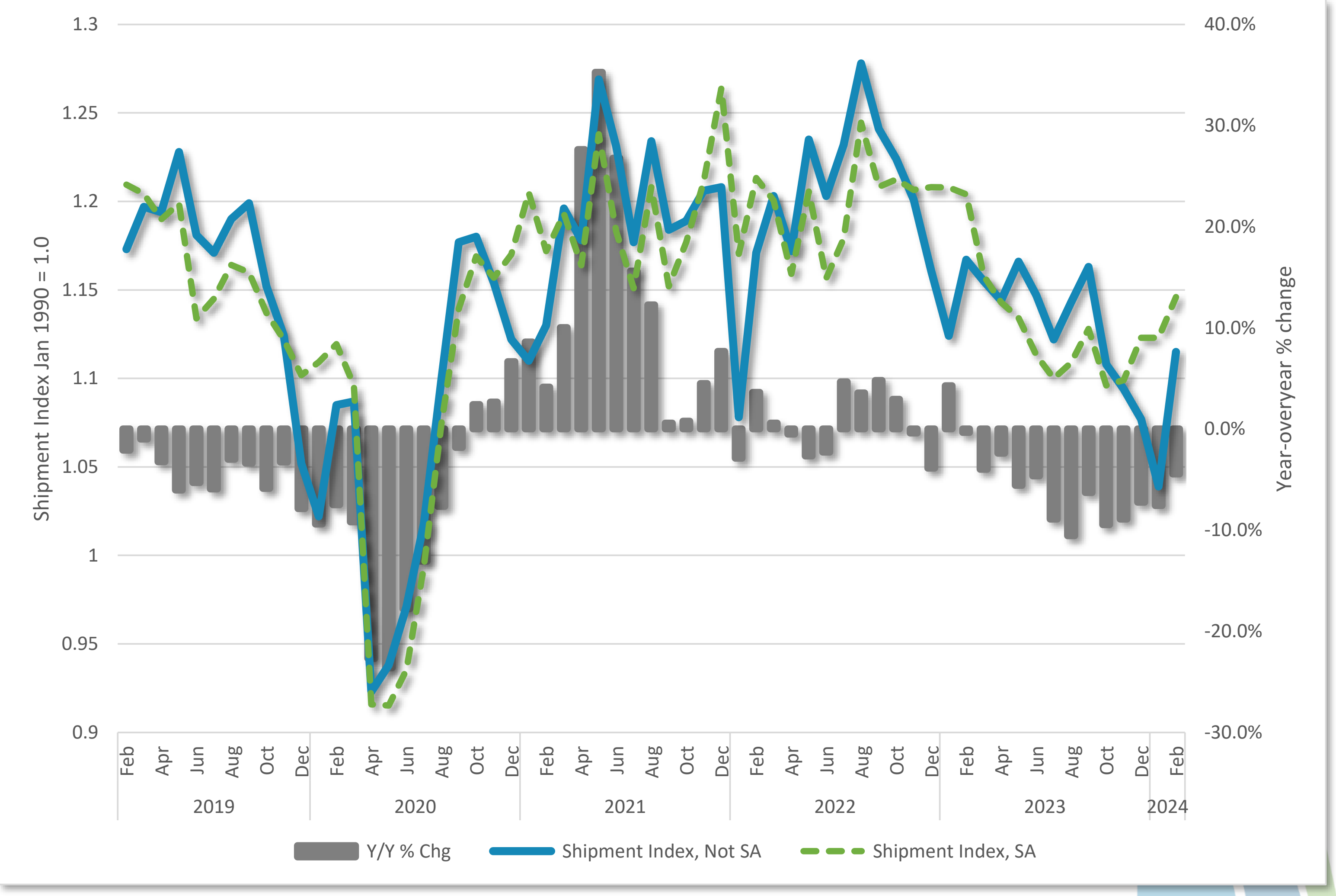
Why it matters: This index shows monthly shipment volumes from the entire Cass client base.

Our thoughts: the Cass Shipment Index was up 7.3% month-over-month to 1.12 in February, and up 2% to 1.15 when seasonally adjusted (SA), primarily due to Leap Day. The Shipment Index decreased year-over-year however, marking 13 consecutive months of decline.

- Expenditures, which measures the total amount spent of freight, increased 1.8% to 3.31 when SA.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, decreased 0.2% to 2.89 when SA.
- Truckload linehaul rates, which includes both spot and contract rates, increased 0.1% to 140.5 and is down year-over-over for 14 straight months at 5.4%.

Bottom line: Cass previously predicted that the current downcycle was nearing its completion. However, they have since changed the tone of the predictions stating, "the freight cycle is certainly stabilizing with rates below sustainable levels in many cases and little room for further savings."

- Cass believes that the long bottom in the freight cycle may lengthen even further as large carriers continue to order new capacity, perhaps to get in front of upcoming emission regs.



Source: Cass Freight Index | https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index

Supply: Truck Employment

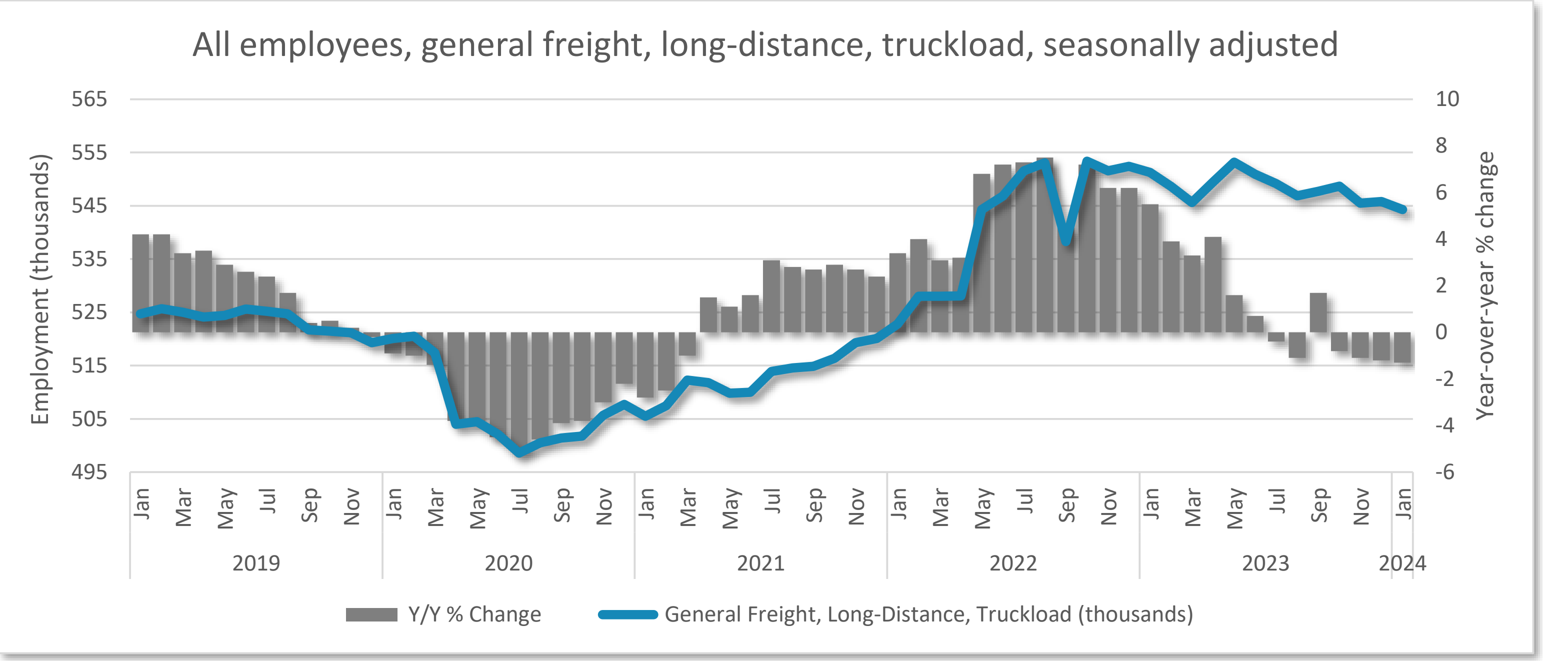
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

Why it matters: Overall truck transportation employment helps us to see how much driver capacity, or supply, is out there in the industry.

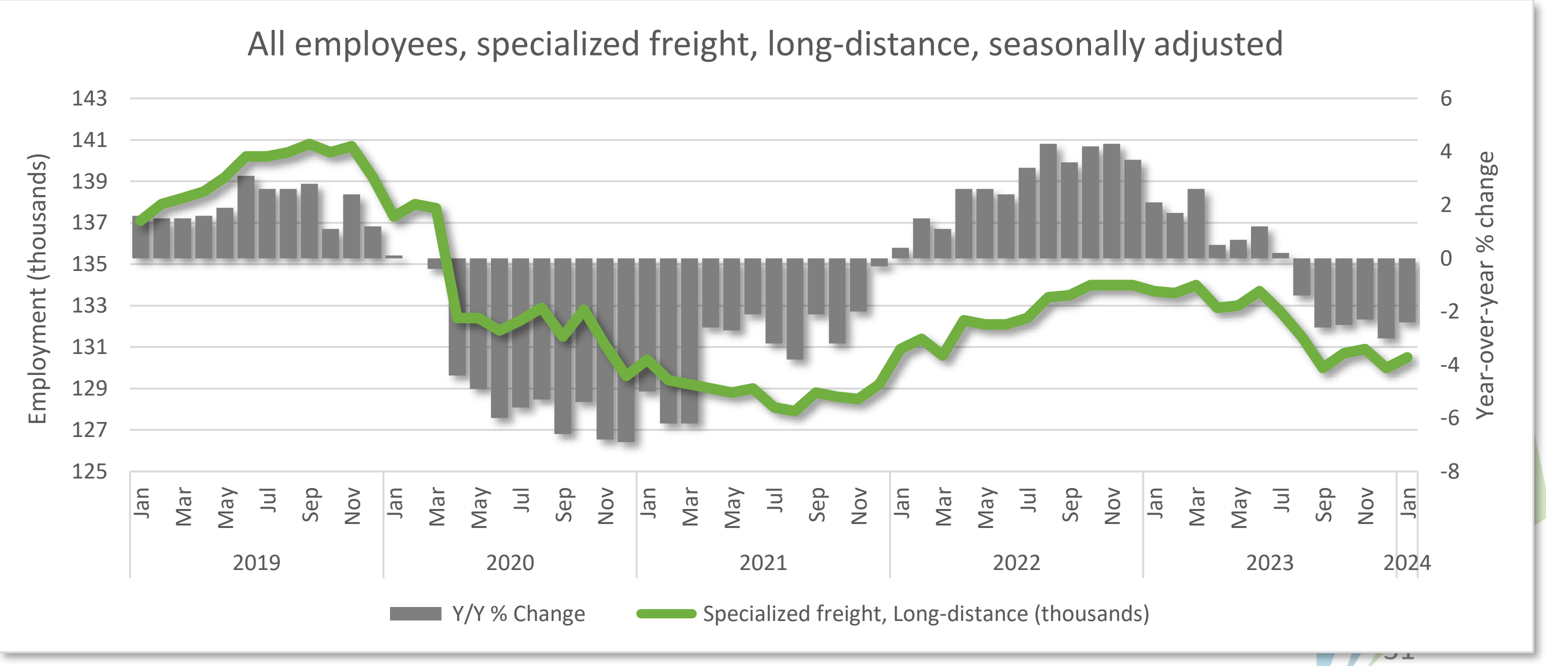
- Employment levels are also a good indicator for demand and rates, as demand drives supply. Thus, when demand increases, wages and rates also increase to attract more supply. The opposite is also true.

Our thoughts: Truck employment numbers overall (not pictured) decreased 0.02% in February to 1.55 million people following adjustments, ending three straight months of increases. However, this is the ninth consecutive month of year-over-year decreases.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.3%, or 1,500 jobs, month-over-month in January.
- It is 1.3%, or 7,000 jobs, lower year-over year, 3.3% above the 5-year trend, and 4% higher than 2019 levels.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, increased 0.4%, or 500 jobs, month-over-month.
- This figure is 2.4%, or 3,200 jobs, lower year-over-year, and is 2.1% below the 5-year trend. This is the sixth consecutive month of year-over-year decreases.



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348412101 | Monthly



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348423001 | Monthly

Demand: Class 8 Orders and Sales

The big picture: ACT Research obtains data from truck and trailer original equipment manufacturers (OEMs) and dealerships, and provides monthly reports and forecasts.

- This data includes Class 8 truck orders and sales.

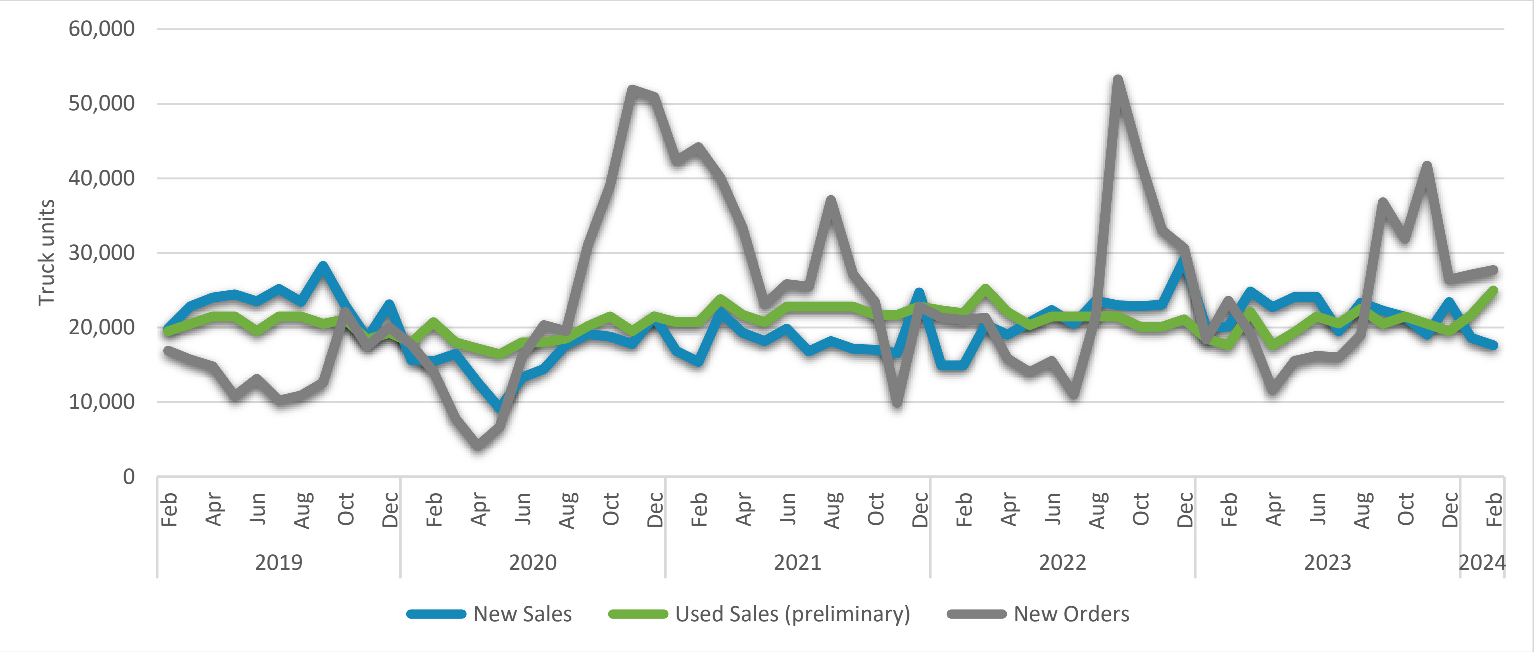
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

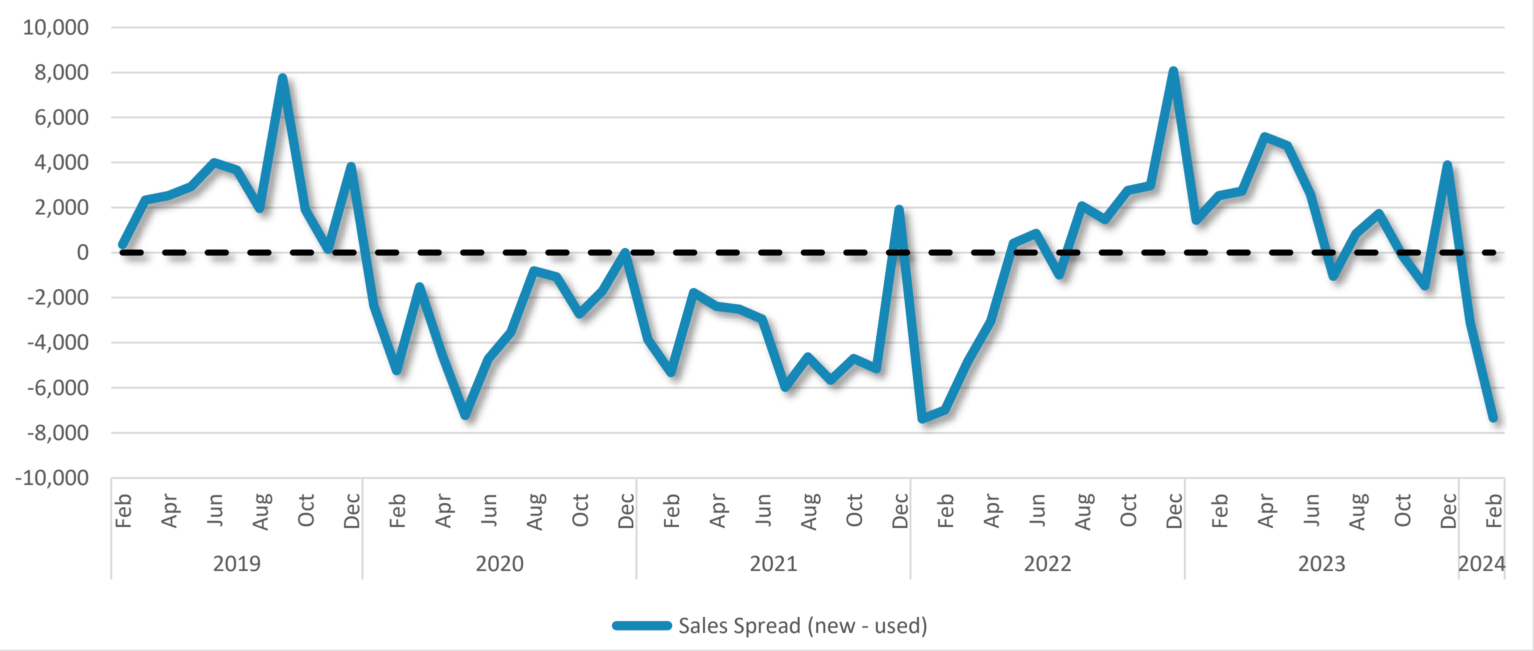
- Demand for trucks tends to spike when new orders increase following a steady increase in rates as depicted in the top figure (2017-2018 and 2020).
- Truck capacity tends to loosen when new sales eclipse used sales as shown in the bottom chart (2018-2019 and 2022-2023).

Our thoughts: New sales decreased 20.5% in January to 18,594 after dropping 22.9% in November following adjustments, and are 6.7% lower year-over-year, while new orders increased 2.3% to 27,000.

- Preliminary used sales figures increased 15%, or 3,255 units, in February to 24,955, and are up 41.8% compared to last year.
- Used sales eclipsed new sales for the second straight month. This time by 7,336 units. This is only the fifth time in 14-months that used sales surpassed new.

The industry has experienced overcapacity, or too many trucks, since the fourth quarter of 2022. Though it's not the primary cause for low rates it hasn't been helpful either.





Source: ACT Research | https://www.actresearch.net/ | Monthly

Note: 16,000 Class 8 retail sales per month, or 190,000 per year, is the accepted U.S. replacement level

Rates: Logistics Managers' Index (LMI)

The big picture: The LMI is a diffusion index that measures supply chain conditions.

- The LMI consists of eight key logistics metrics ranging from inventory levels to transportation utilization.
- Any number below 50 is indicative of contraction, while any number above 50 is indicative of expansion.

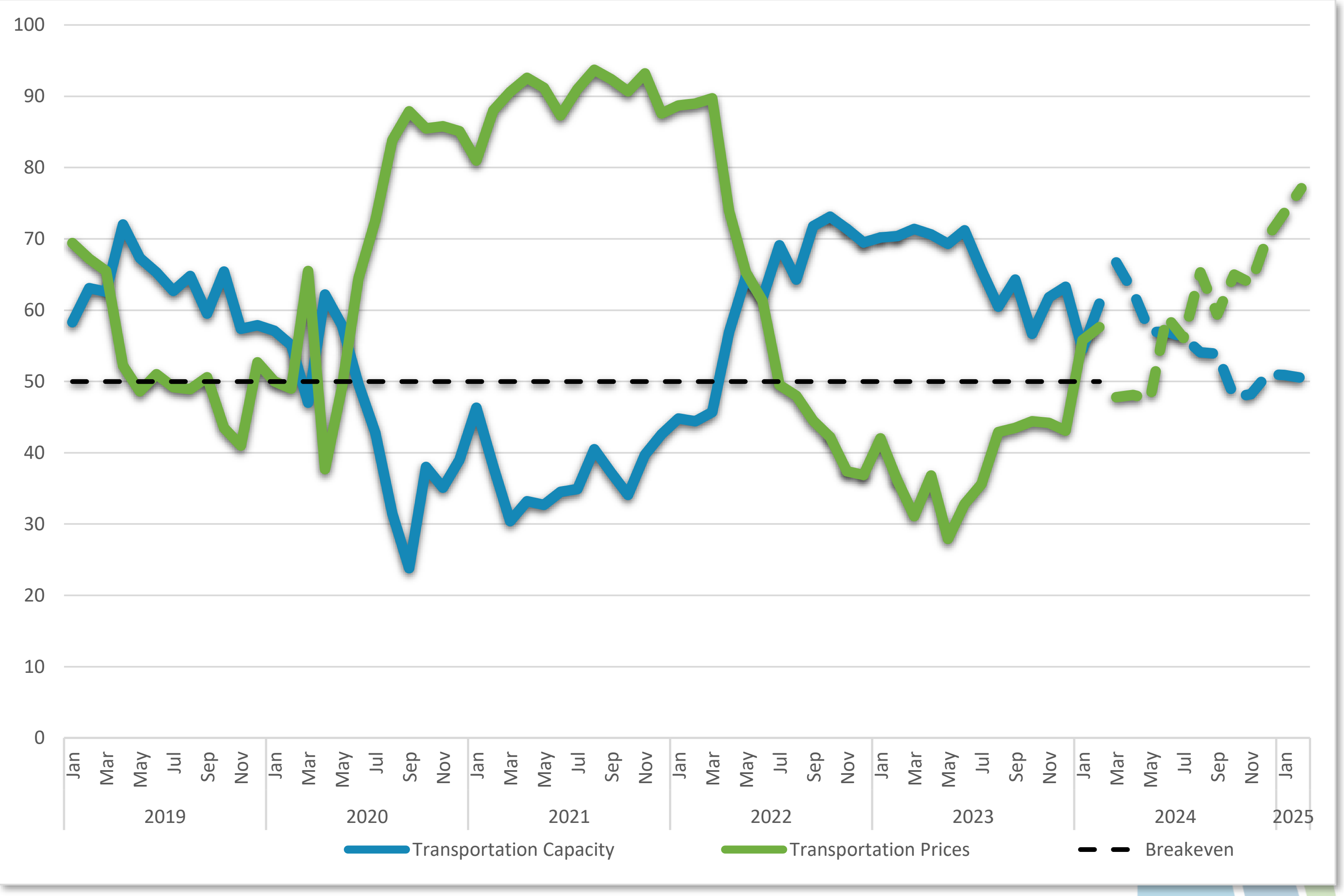
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

- When the two curves depicted in this chart invert, it signals bad news for freight rates.

Our thoughts: The LMI overall increased 0.9 points to 56.5. This is the second month where every metric in the LMI is reading in expansion territory, including transportation prices. In fact, transportation prices reached their fastest rate of growth since the start of the freight recession in June 2022.

- As we predicted last month, transportation prices and capacity inverted back in February, showing that we haven't yet entered a true growth period in the freight market.
- Prices increased 3.2% month-over month to 57.6, and are 59.6% higher year-over-year (Y/Y), when the index read 36.1.
- Transportation capacity increased 11.7% to 60.9, which is 13.5% lower Y/Y. Transportation capacity has only fallen under 60 twice since May 2022.

Aggregate logistics prices (ALP), which includes inventory costs, warehousing prices, and transportation prices, decreased 1.1% to 184.7 and are well below the readings we saw between 2020 and 2022, which were often over 250. ALP is 7.0% lower Y/Y.



Source: LMI | https://www.the-lmi.com/ | Monthly

Rates: Producer Price Index (PPI) Long-Distance, Truckload

The big picture: The PPI is a group of indexes that measures selling prices domestic producers receive for their output.

- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

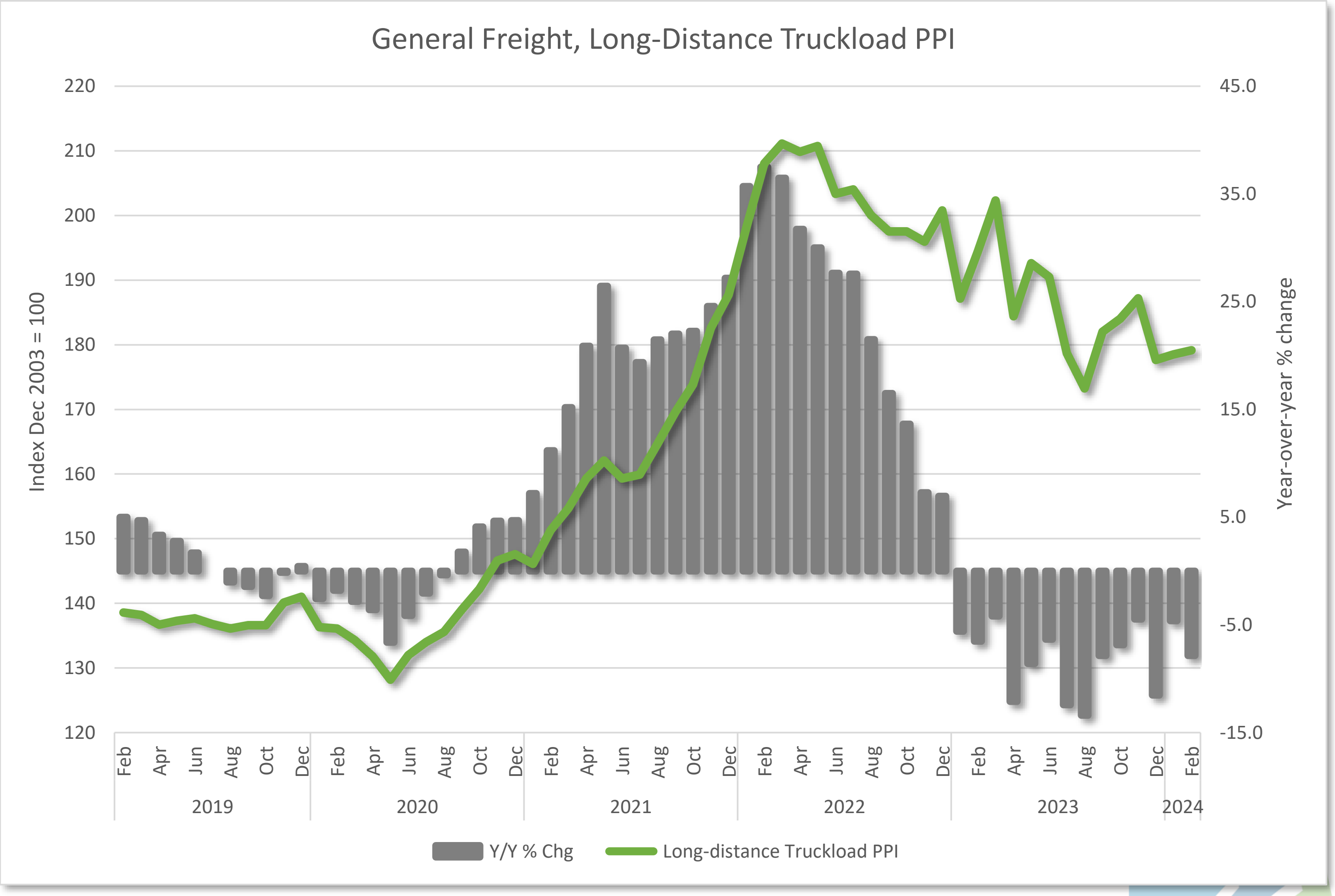
Why it matters: Changes in this particular index reflect the general direction that freight rates are heading (i.e., up or down) for the long-haul owner-operator.

Our thoughts: The index increased in February after ticking upward 0.5% in January following readjustments. The index has decreased 15% since its high in May 2022.

- The long-haul PPI rose 0.4% to 179.2, month-over-month, after the BLS re-adjusted the figure for January.
- The PPI is 7.9% lower year-over-year, but 7.6% above the 5-year trend.

While it appears that the PPI has climbed somewhat out of its' August 2023 trough, it has declined Y/Y for 14 straight months.

- Contrary to several articles out there, don't expect the new freight cycle to start materializing at least until the second half of 2024, and even then, it will be a slow gradual climb.



Source: FRED | https://fred.stlouisfed.org/series/PCU484121484121 | Monthly

Costs: Diesel Fuel

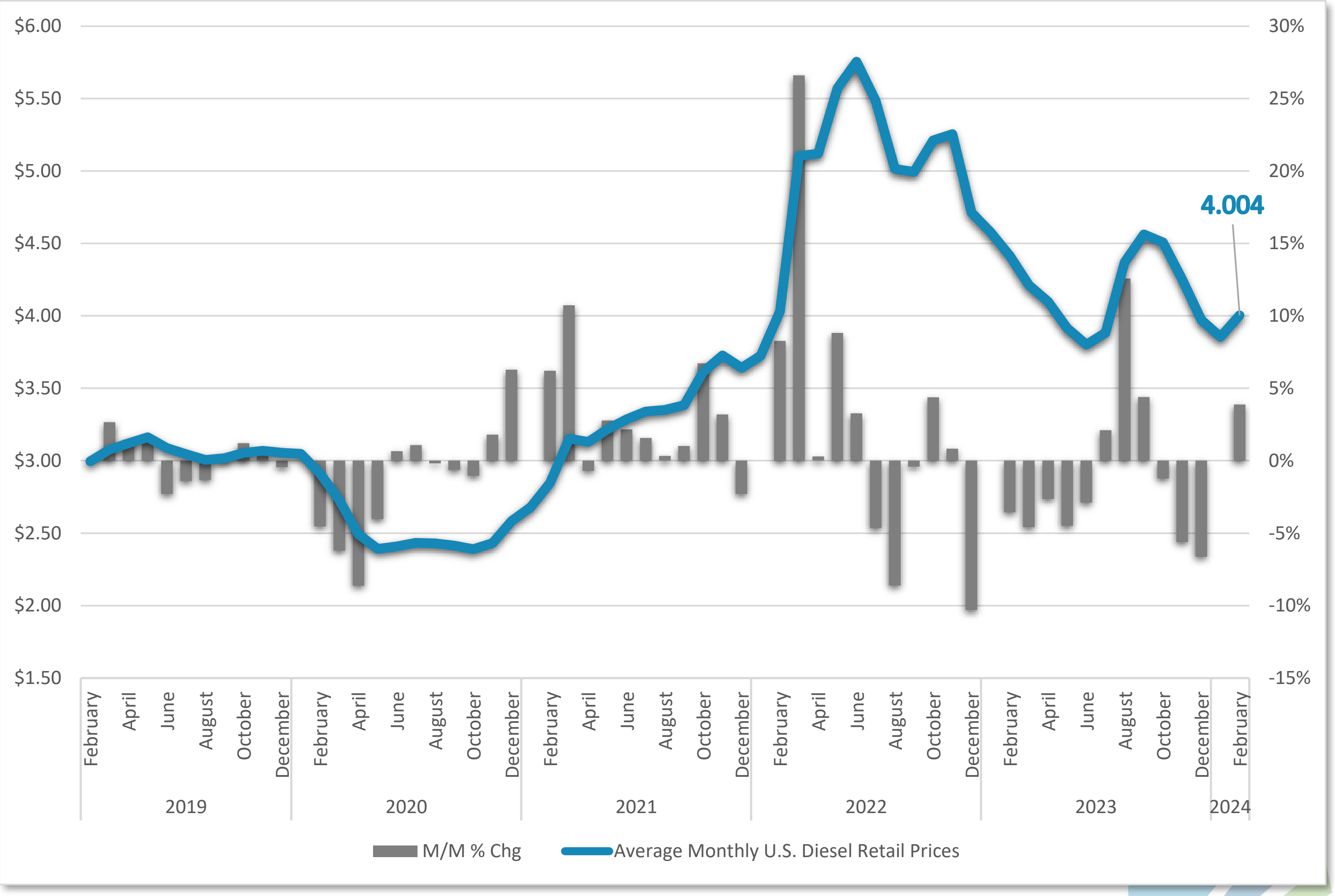
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

Why it matters: Fuel is the number one expense for owner-operators.

- Fuel comprises over 45% of the average owner-operator's cost of operation.
- **Yes, but** it normally represents 25-30%.

Our thoughts: Fuel prices jumped $0.15 per gallon in February after falling $0.12 in January and $0.28 in December. Prices through February have declined $1.75 per gallon since the high of $5.75 in June 2022.

- The average price for diesel fuel increased 3.9% month-over-month to $4.00 per gallon, ending four consecutive months of decreases.
- The average diesel price is 9.3% lower year-over-year when the cost was $4.41 per gallon, but 10%, or $0.36 per gallon, higher than the 5-year trend.
- The average price has been down year-over-year for 12 straight months.
- Learn more about how to incorporate a fuel surcharge by visiting our website [here](#).



Source: U.S. EIA | https://www.eia.gov/petroleum/gasdiesel/ | Weekly

Costs: Used Truck Prices

The big picture: Most individuals seeking to become an owner-operator first look to the used truck market due to the high cost of new trucks.

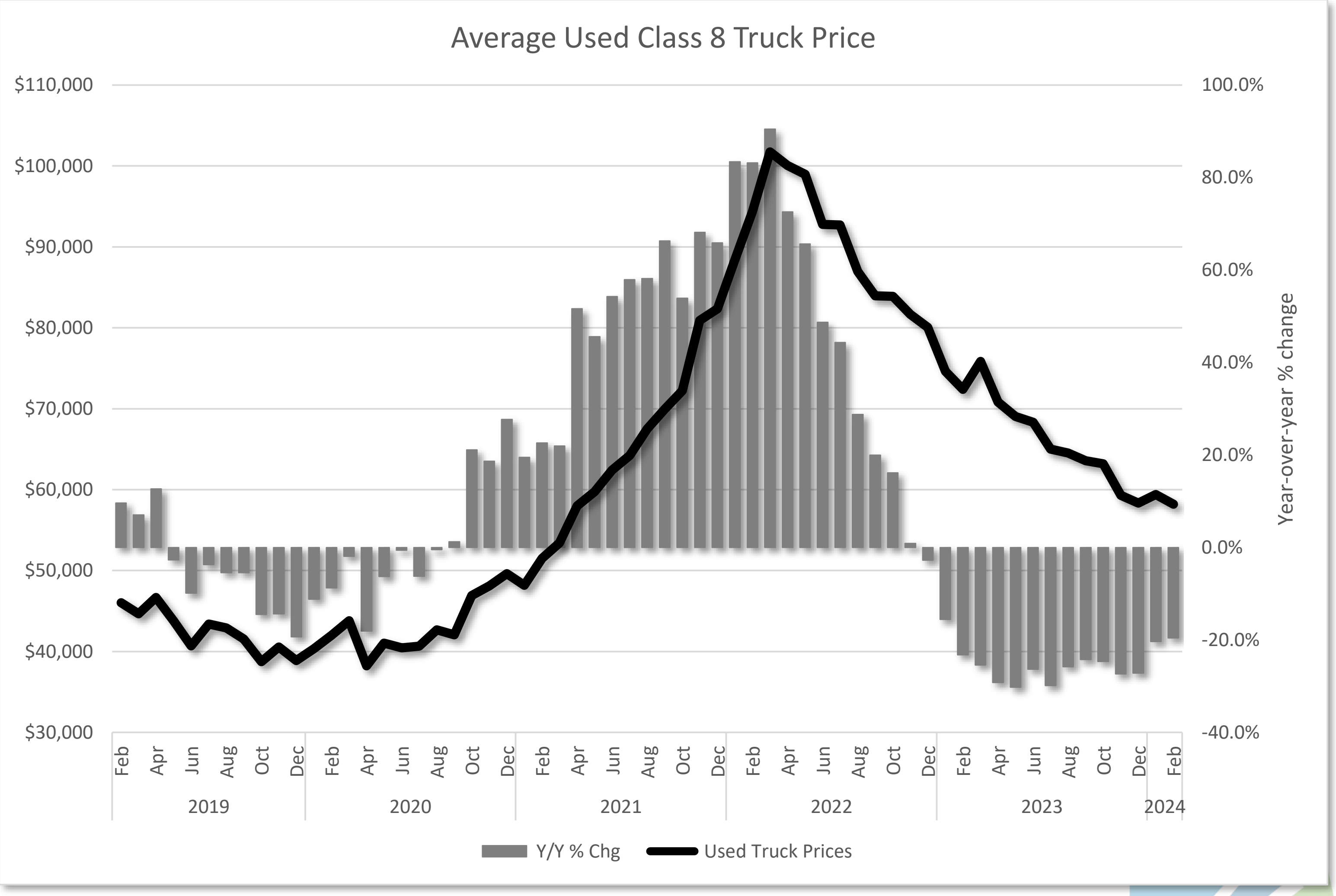
Why it matters: Used truck prices provide a good picture of the strength or weakness of the freight market. For example, monthly year-over-year decreases indicate that the market is in a downcycle due to weak demand.

- As spot rates turn upward, the number of individuals seeking to become an owner-operator also increase, pushing used prices higher.

Our thoughts: Preliminary used truck prices in February continued the downward trend slightly after increasing 1.8% in January following readjustments. Prices have fallen 42.8% since the high in March 2022, but remain significantly above than the 2019 average of $42,769.

- Used Class 8 truck prices decreased $1,188 to approximately $58,212.
- This is 19.6% lower year-over year, and 5.6% below than the 5-year trend.

Year-over-year comparisons have been negative for 15 consecutive months, which does not bode well for the overall freight market though it does help to lower costs.



Source: ACT Research | https://www.actresearch.net/ | Monthly | May's numbers are preliminary

Freight Market Outlook

Overall Freight Market Outlook

While it's good to know the current conditions of the freight market, it's also important to understand what the future holds. OOFI designed this segment to examine some key economic factors that can impact the forthcoming market and thereby your bottom line.

To do so, we will look at four key categories:

1. **Consumer and Labor Conditions** help us to see how much people are earning and spending.
2. **Manufacturing and Inventory** is one of the primary movers and shakers when it comes to freight volumes.
3. **Ocean** volumes are a good indicator of the amount of volume the market might expect downstream.
4. **Rail** volumes are leading indicators for freight demand, and a primary driver of pressure on capacity.

The bottom line: OOFI will breakdown each category and explain how each one can potentially affect the overall freight market and thus how they pertain to you as a small business owner.

Consumer and Labor: Wages and Disposable Income

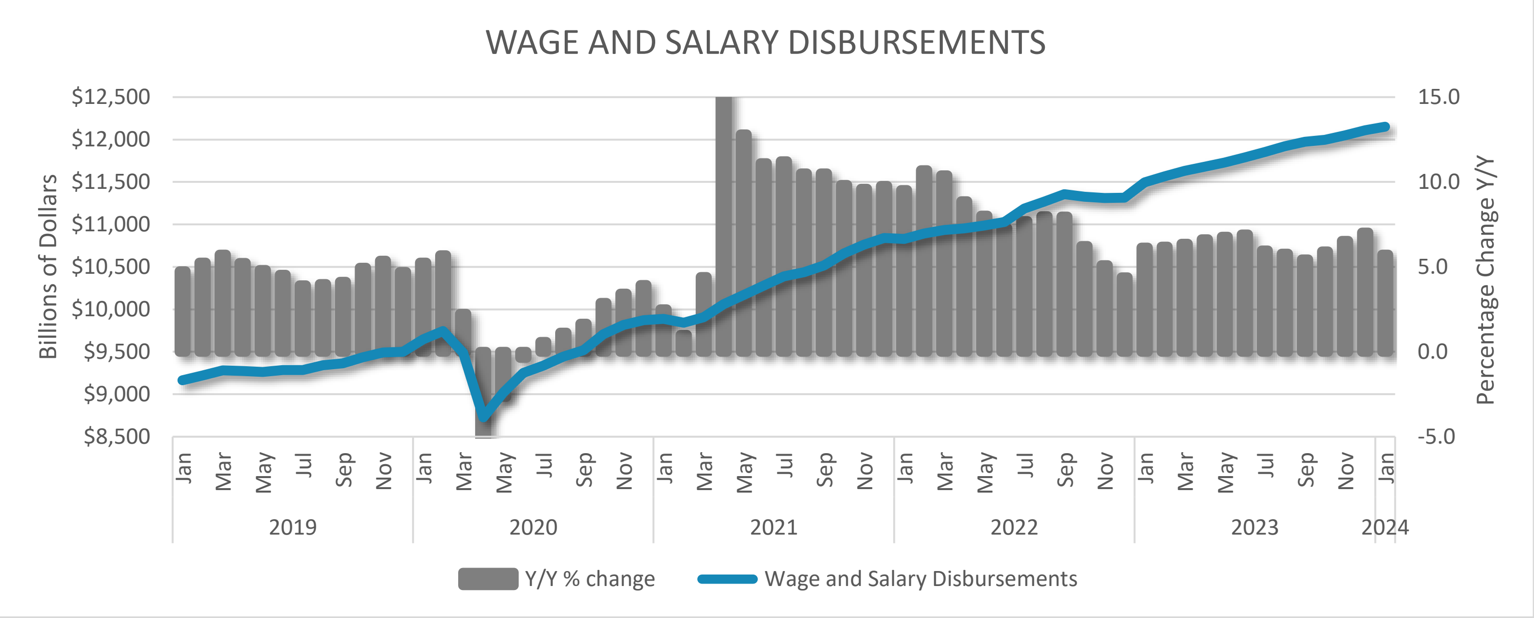
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so too does business and shipping activity.

Why it matters: Disposable income, the price of goods and services, and expectations of the overall economy have great influence on consumers.

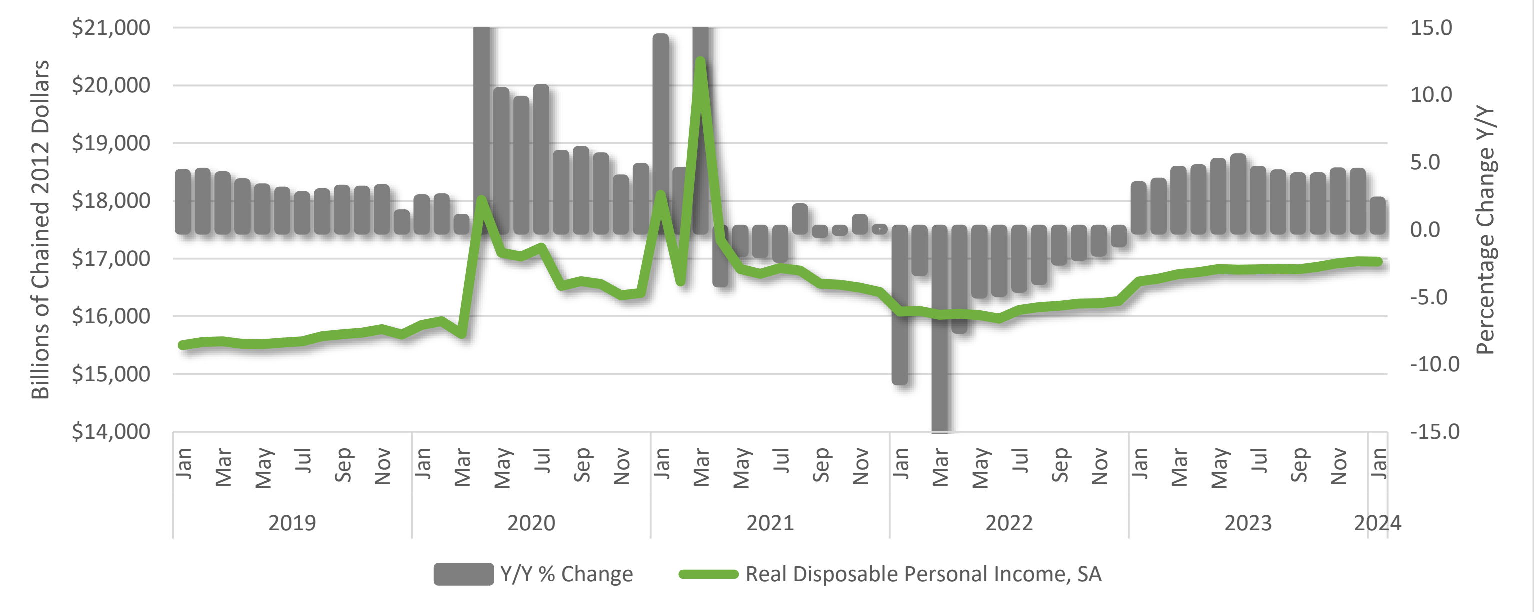
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, as well as real disposable income, continue to grow year-over-year, albeit at a slower pace, as wages outpace inflation again in January.

- Wages and Salary disbursements grew 0.4%, or $43.4 billion, month-over-month in January.
- In terms of year-over-year growth, wages and salary disbursements are 5.72% higher due to difficult comparisons with the previous year.
- Real disposable income, which is adjusted for inflation, decreased 0.02% month-over-month to $16.95 trillion, ending three consecutive months of growth, and is 2.1%, or $348 billion higher year-over-year. It's slightly higher than the 2019 trendline.



Source: FRED| https://fred.stlouisfed.org/series/A576RC1 | Monthly



Source: FRED| https://fred.stlouisfed.org/series/DSPIC96 | Monthly

Consumer and Labor: Retail and Consumer Price Index (CPI):

The big picture: The term “retail sales” is an economic metric that tracks consumer demand for finished goods.

- While CPI measures the average price change for a basket of goods and services over time.

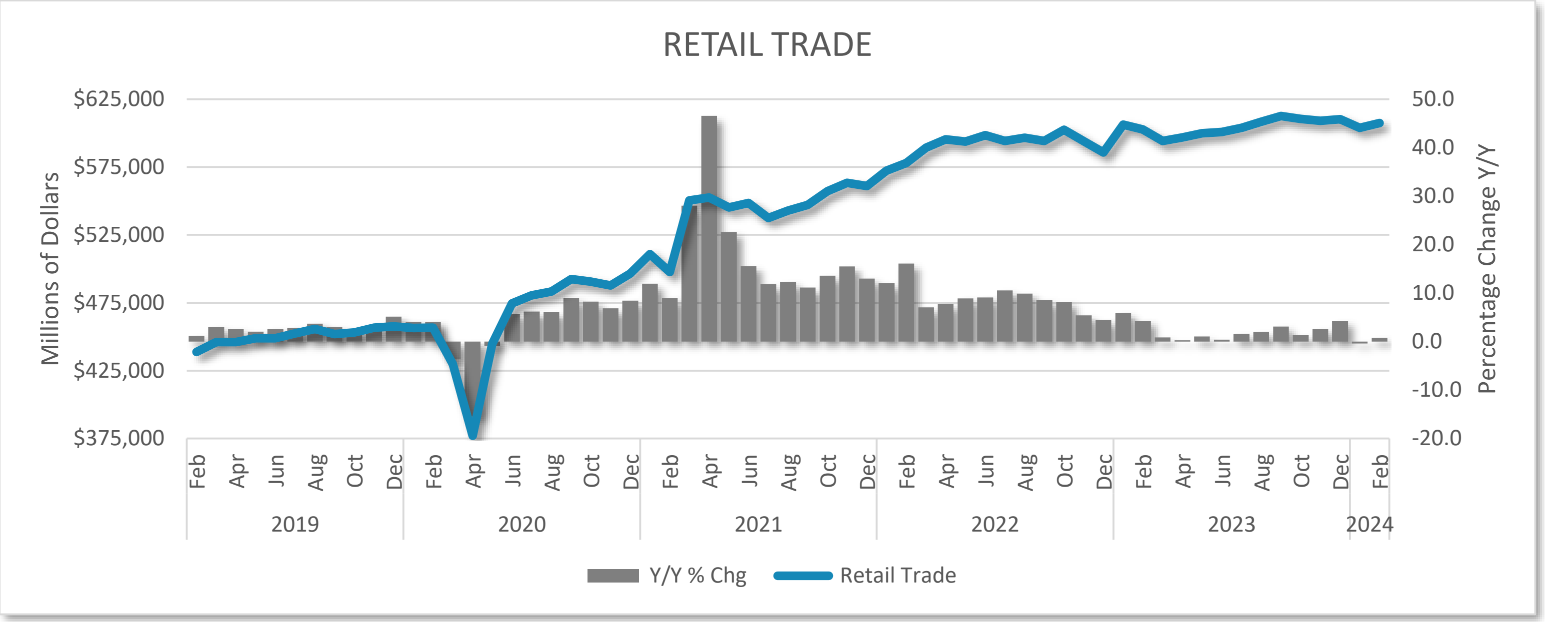
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- Consumer spending accounts for two-thirds of GDP.
- If prices are stable and retail sales are high, it means that there’s a greater demand for freight.

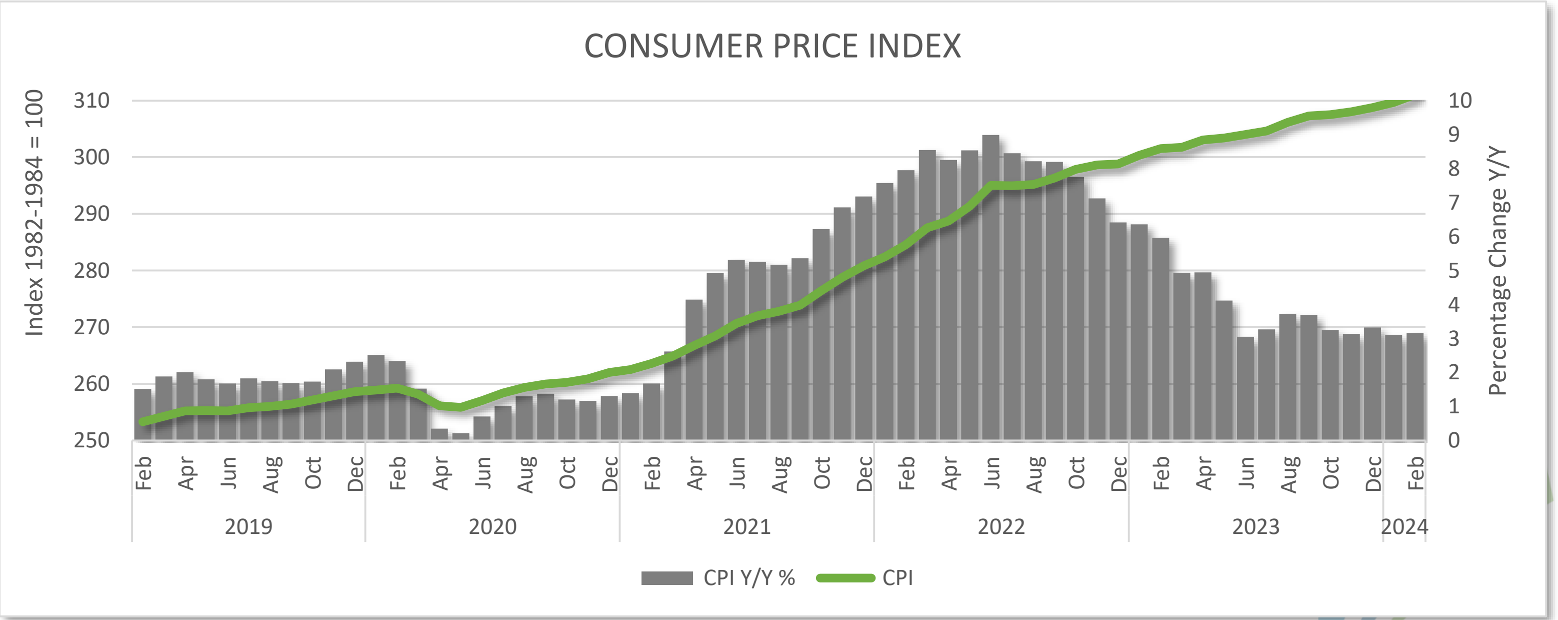
Our thoughts: Retail trade rose month-over-month in February after declining 0.5% in the previous month following adjustments to January’s data.

- Retail trade increased 0.6%, or $3.6 billion, month-over-month to $607.43 billion, and is 0.8%, or 4.8 billion, higher Y/Y. This reversed last month’s trend, which was represented the first Y/Y decline since May 2020.
- CPI increased by 1.4 to 311.1, which is 3.2% higher than it was a year ago. CPI continues to come in hot and is well below the FED’s 2% target range. The FED still promises to cut rates this year, but this could delay such cuts.

Core CPI, which excludes food and energy, declined 2.9% month-over-month to 3.8%. The shelter and service components of CPI remain stubbornly high however, which is helping to prop up the inflation numbers.



Source: FRED| https://fred.stlouisfed.org/series/RSXFS | Monthly
Note: E-commerce sales are included in the total monthly estimates



Source: FRED| https://fred.stlouisfed.org/series/CPIAUCSL#0 | Monthly

Consumer and Labor: Real Personal Consumption Expenditures (PCE)

The big picture: The U.S. Federal Reserve uses the PCE Price Index as its primary inflation index when making monetary decisions.

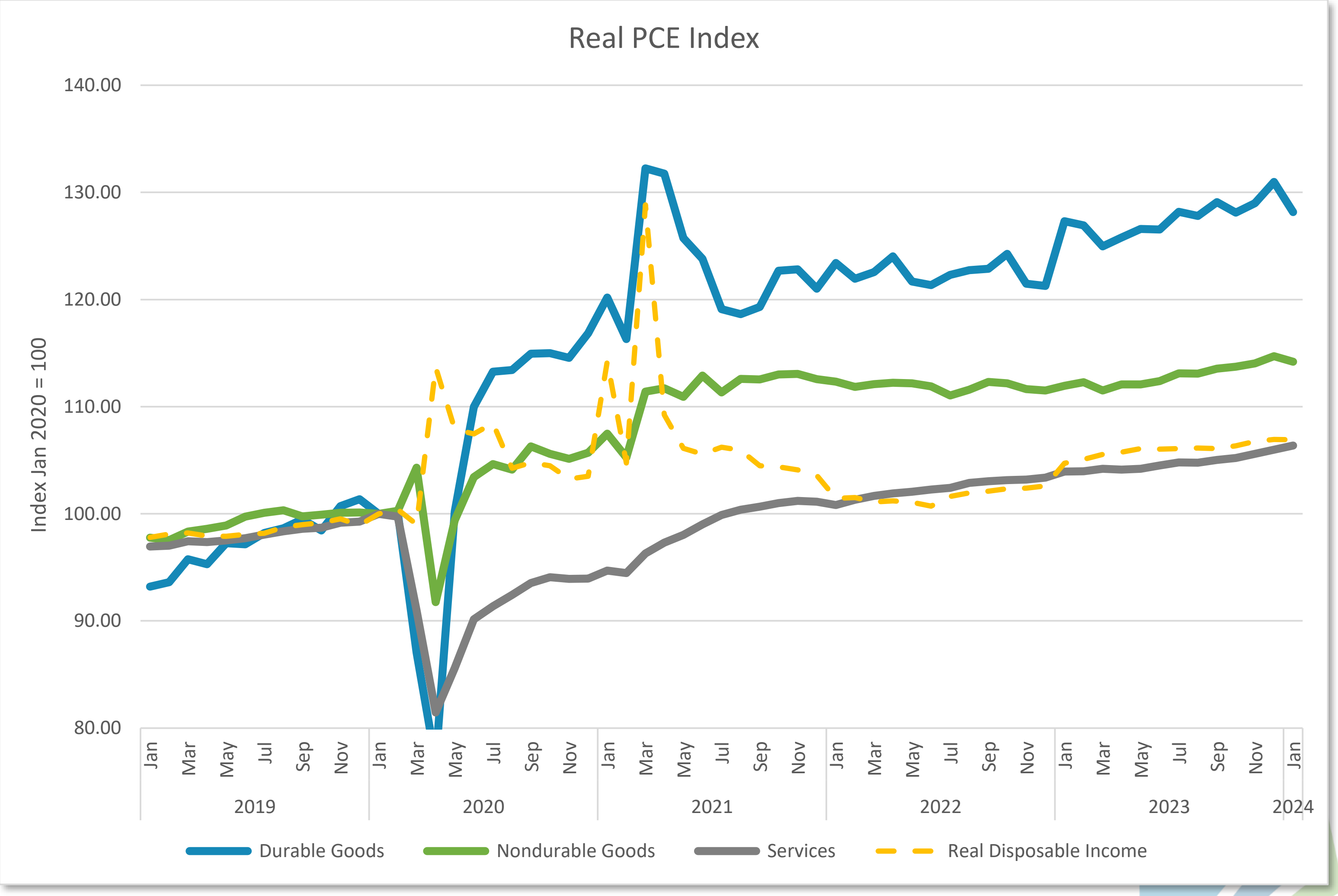
- The PCE measures a broad spectrum of consumer spending for a period of time.

Why it matters: The Real PCE, meaning it adjusts for inflation, allows owner-operators to see how well the economy is faring, how people are spending their money, and how much demand for goods there will be in the future.

- Durable Goods are costlier items that last longer than 3-years, such as vehicles, electronics, etc.
- Non-Durable Goods are less cost and last less than 3-years, including gasoline, clothing, etc.

Our thoughts: Both durable goods and non-durable goods declined in January, ending two consecutive months of increases for each spectrum even after adjustments.

- Consumer spending for durable goods decreased 2.1% to $2.05 trillion, and is 0.7%, or $13.6 billion, higher year-over-year and 11.1%, or $205.5 billion, above the 5-year trend.
- Spending for non-durable goods declined 0.5% to $3.395 trillion, which is 2.0% higher Y/Y and 6%, or $193.5 billion, above the 5-year trend.
- Spending on services rose 0.4% to $10.223 trillion and is 2.3% higher Y/Y.



Source: FRED| https://fred.stlouisfed.org/graph/?graph_id=1210974&rn=488 | Monthly

Manufacturing: Industrial Production

The big picture: The Federal Reserve Board's Industrial Production (IP) index measures the real output of various manufacturing industries.

Why it matters: Manufacturing makes up approximately 60% of all for-hire trucking ton-miles, making the IP Index a great indicator of future demand.

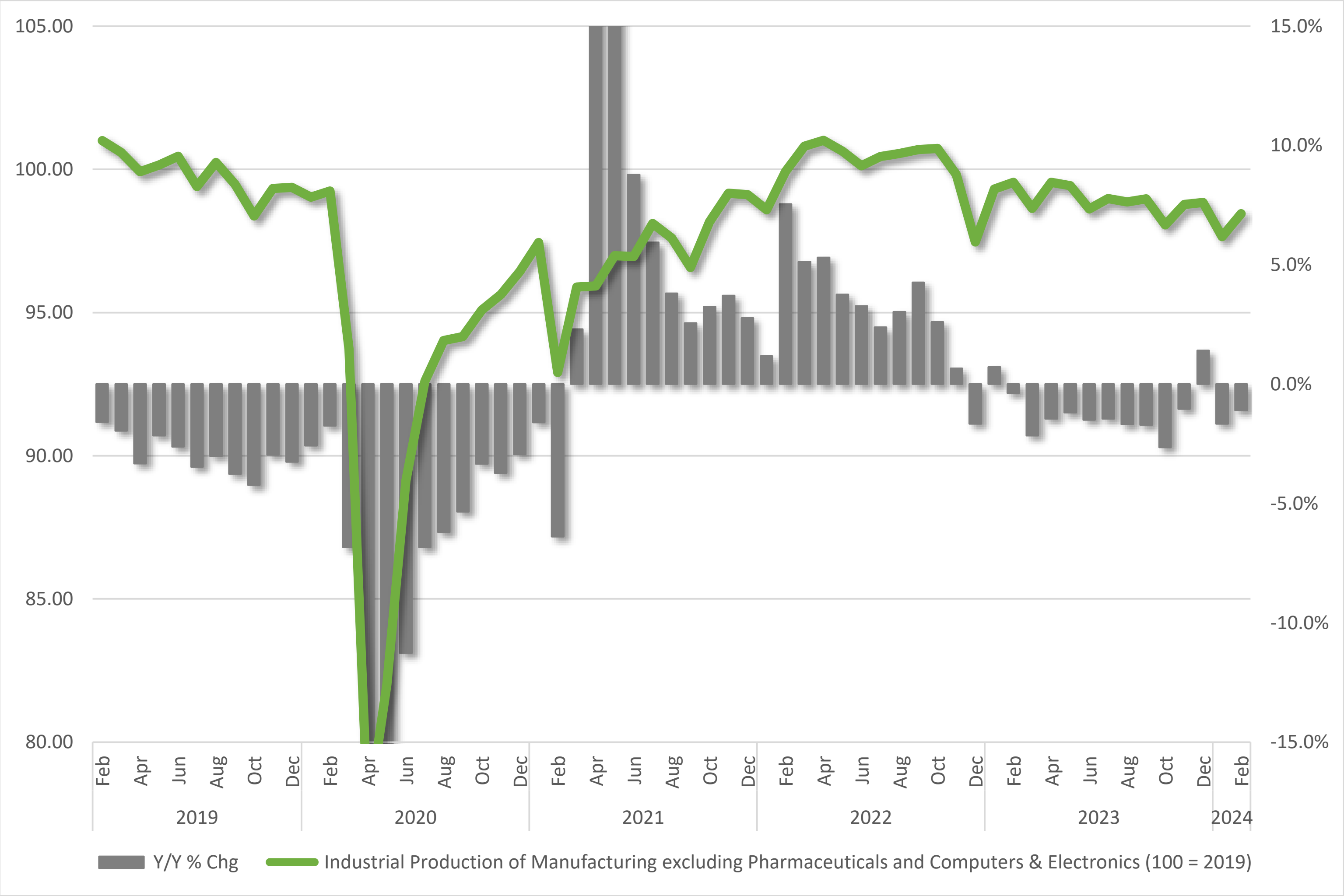
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- Historically, decreases in manufacturing activity have corresponded with either the start, or worsening, of a freight recession in the trucking sector.
- These cycles often take years to correct themselves.

Our thoughts: Manufacturing activity excluding pharmaceuticals and computer and electronics increased month-over-month in February but fell year-over-year.

- Manufacturing activity increased 0.8% to 98.45 after decreasing 1.2% last month following adjustments, and is down 1.1% year-over-year (Y/Y).
- Activity was down again for the 12th time in 14 months, and is 1.5% below 2019 levels.

According to Professor Jason Miller, two consecutive quarters of declining seasonally adjusted manufacturing activity represents a manufacturing recession. The current recession has been ongoing for five straight quarters.



Source: Federal Reserve Board | https://www.federalreserve.gov/releases/g17/Current/ | Monthly

Manufacturing: Manufacturers with Unfilled Orders

The big picture: Manufacturers with Unfilled Orders is a special subset of manufacturing that the U.S. Census Bureau views as a "make-to-order basis."

- This represents 70% of durable goods manufacturing by value.

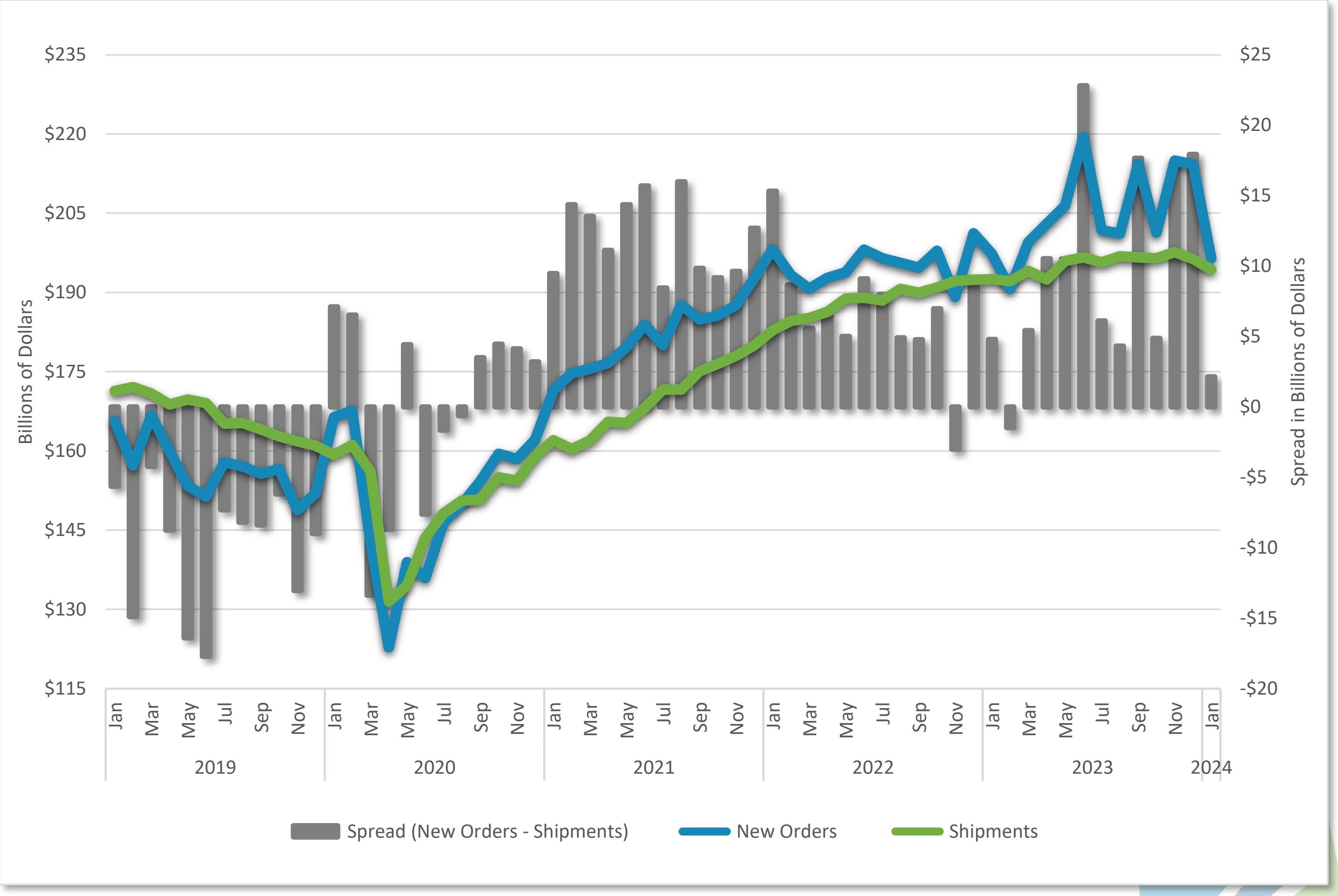
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- This expansion or contraction in activity, as captured by the spread between the two, coincides with trucking cycle.

Our thoughts: New orders eclipsed shipments for the eleventh straight month in January, but at a much slower pace. While new orders for make-to-order products typically decline during manufacturing recessions, this has yet to happen.

- New orders declined 8.3% month-over-month to $196.49 billion in January, and are 0.4%, or $825 million, lower year-over-year.
- This is the first Y/Y decline in 11-months.
- Shipments decreased 1.01% to $194.3 billion.

The spread between new orders and shipments dropped from $17.9 billion to $2.1 billion, representing an 88% decline, which is a bad sign for future freight demand.



Source: New Orders: https://fred.stlouisfed.org/series/AMTUNO | Shipments: https://fred.stlouisfed.org/series/AMTUVS | Monthly

Manufacturing: ISM Manufacturing PMI

The big picture: The Institute for Supply Management's (ISM) Manufacturing PMI is a diffusion index based on data compiled from purchasing and supply executives.

- The PMI measures ten different leading indicators, including new orders, production, backlogs, inventories, etc.
- Any number below 50 is indicates contraction, while any number above 50 indicates expansion.

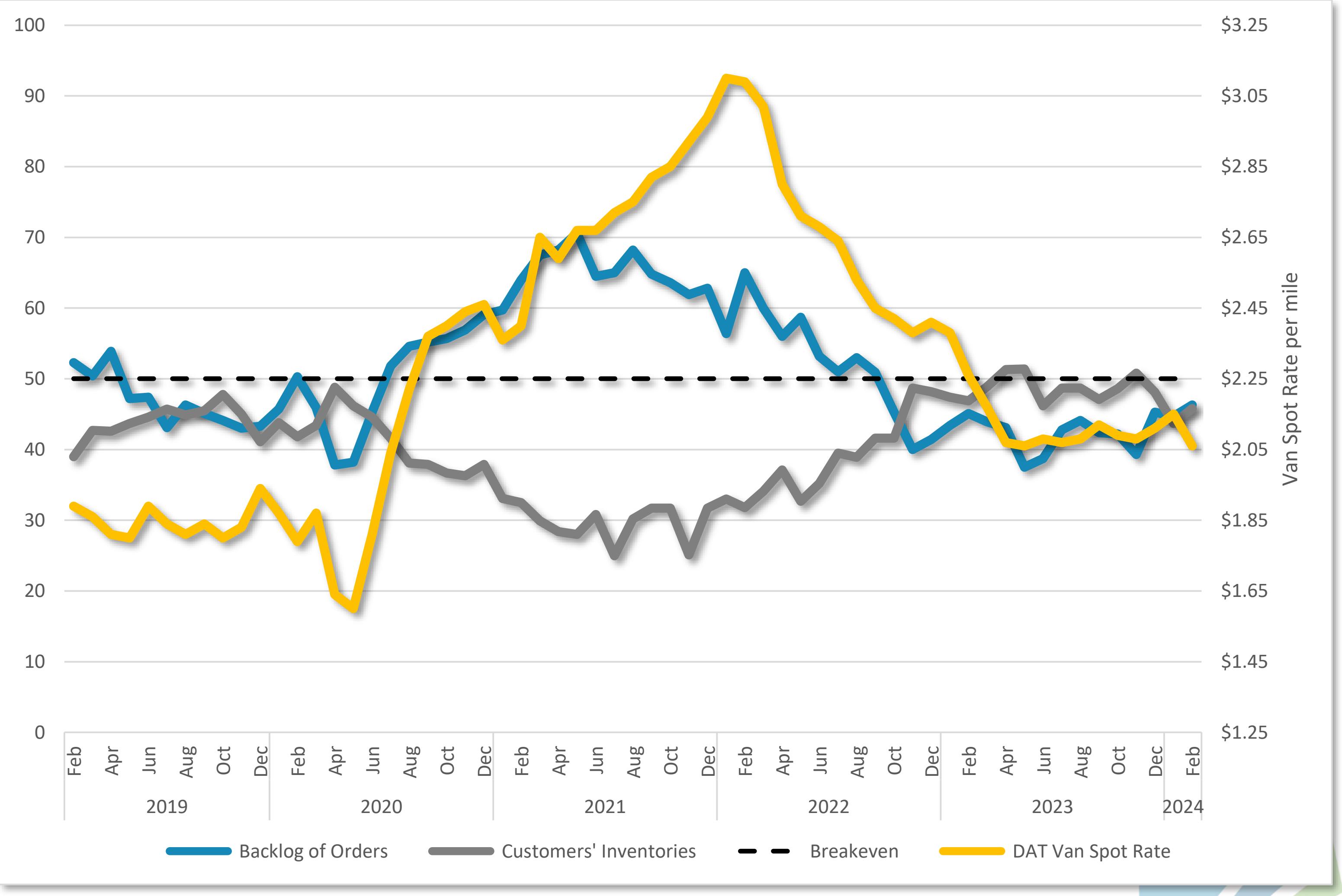
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- When backlogs drop and customers' inventories move upward, rates rise. The opposite is also true.

Our thoughts: According to ISM, the U.S. manufacturing continued to contract and at a faster rate in February as compared to January, posting a reading of 47.8%. The New Orders Index moved back into contraction territory at 49.2%, which is negative news.

- Backlogs increased 3.6% month-over-month to 46.3, after declining 1.3% last month. Backlogs have been in contraction territory for seventeen straight months, and are up 1.2 percentage points year-over-year.
- Customers' inventories increased 4.8% to 45.8. They are 2.3% lower year-over-year.
- Inventories are lower than backlogs for the second straight month. Last month marked the first time since October 2022.

The bottom line: Demand moderated, output/consumption dropped, and inputs continued to accommodate future demand growth but showed signs of stiffening.



Source: ISM | https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/ | Monthly

Inventory: Machinery Wholesalers Inventories to Sales Ratio

The big picture: The inventories to sales ratios show the relationship of the end-of-month values of inventory compared to monthly sales.

- For example, a ratio of 2.5 would indicate that a firm has enough product on hand to cover two and a half months of sales.
- The machinery, equipment, and supplies wholesaler's ratio consists of firms that sell bulldozers, farm equipment, industrial machines, supplies for those machines, and transportation equipment excluding motor vehicles.

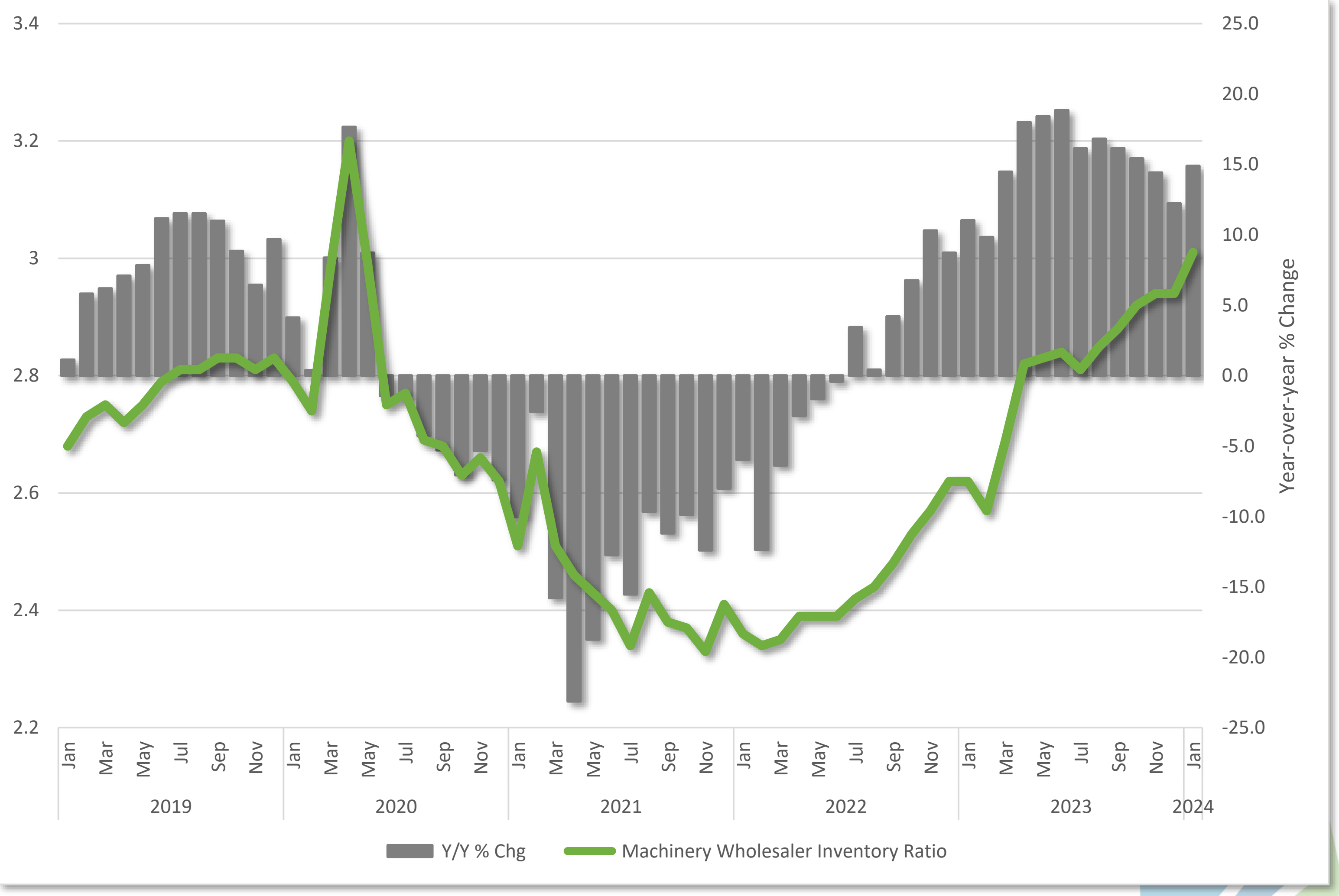
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

- When inventory levels are high, spot rates contract, while the opposite is also true.

Our thoughts: Inventory levels rose in this sector in January. Hopefully inventories will peak soon and turn the other direction. Inventories are 8.3% above 2019 levels.

- The inventories-to-sales ratio increased 2.4% to 3.01.
- The ratio is 14.9% higher year-over-year. The ratio has been higher Y/Y for 19 straight months though it's starting to drop some.

One respondent to ISM's survey in this sector wrote, "Demand has finally picked up, with customer orders more closely resembling typical January and February levels. January was up 22 percent compared to December; February up 26 percent compared to January."



Source: FRED| https://fred.stlouisfed.org/series/R4238IM163SCEN#0 | Monthly

Ocean: Exports and Imports

The big picture: It's common today to see products from all over the world in local stores as we truly live in a global economy.

Why it matters: High levels of imports signal a strong domestic demand and a growing economy.

- The U.S. trade deficit tends to worsen when the economy is growing strongly.
- **Yes, but** it's important to note that exports and imports are not a large driver of freight movement compared to manufacturing, accounting for only 5% of all truck freight.

Our thoughts: Despite what some might think, imports continue to perform well. In fact, imports are currently 12.9% or 1.9 billion kilograms (kgs), above 2019 levels.

- Imports increased 7.4%, or 1.14 billion kilograms, month-over-month in January to 16.63 billion kgs, but are 1.1% lower year-over-year.
- Last month was the only Y/Y increase in 15-months
- Exports dropped up 5.7%, or 540.58 million kgs, month-over-month in January, but are 2.3% higher than last year, marking three straight months of Y/Y increases.

Source: U.S. Census Bureau | https://usatrade.census.gov/ | Monthly

Rail: Rail Carloads and Intermodal

The big picture: Railroads are a very cost-effective and fuel-efficient way to move freight.

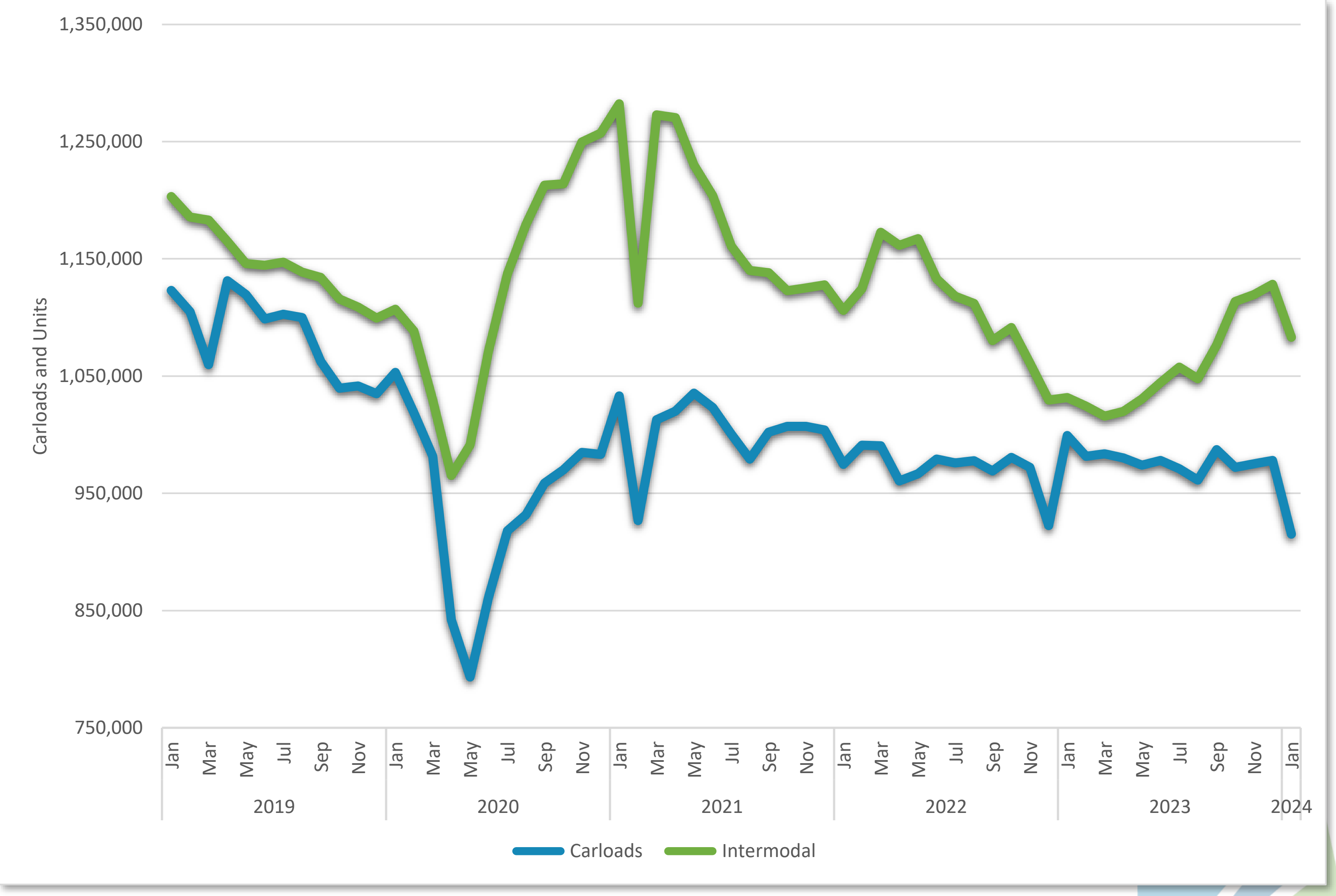
- While the rail and truck industries often compete with each other, they also work hand in hand.

Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- An increase in rail and intermodal freight will translate into greater demand for trucks downstream.
- Intermodal is a subset of rail that involves the movement of highway-capable units, such as containers or trailers.

Our thoughts: Carloads continued their downward slide overall in January, while intermodal took a step backward following several months of increases as more freight moves back to the west coast and import volumes continue to perform well. Intermodal is still posed to have a good year in 2024.

- Carloads decreased 6.4% month-over-month in January to 915,172, and are down 0.8%, or 7,336 carloads.
- Intermodal decreased 4.0% to 1.083 million, but is up 5.2%, or 53,527 loads, year-over-year.
- Carloads are 15.6% below 2019 levels, while intermodal is 5.6% lower than 2019.



Source: Carloads| https://fred.stlouisfed.org/series/RAILFRTCARLOADSD11#0 | Intermodal: https://fred.stlouisfed.org/series/RAILFRTINTERMODALD11 | Monthly

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